

3 March 2017

Mr Chris Pattas
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Australian Gas Networks (Victoria and Albury) - Access Arrangement Proposal 2018-22 - Energy Networks Australia's comments

Dear Mr Pattas,

The Energy Networks Australia welcomes the opportunity to provide its comments in relation to an access arrangement proposal for AGN's gas distribution networks (Albury and Victoria) for the period 1 January 2018 to 31 December 2022. This letter focuses on the incentive arrangements that AGN proposed to the Australian Energy Regulator (the AER).

Energy Networks Australia supports the use of incentive-based mechanisms to promote continuous, effective and stable financial incentives for efficient expenditure. The consideration of incentives arrangements in this process will ensure that opportunities for using incentives to improve AGN's customer outcomes will not be lost.

The current framework effectively means that the AER has scope to introduce any new incentive scheme it considers desirable. This does not imply that incentive schemes should be implemented in every circumstance for every business, however, the regime ensures that a flexible environment exists for the proper consideration of incentive schemes as well as the design and implementation of those schemes.

In this context, we support AGN's proposal to strengthen incentive arrangements in the forthcoming access arrangement period as a way of promoting the long-term interests of customers. There is clear scope to enhance the incentives for capital expenditure efficiency in gas, similar to the arrangements that currently apply in electricity. A contingent Capital Expenditure Sharing Scheme (CESS) is a good starting point and we consider the contingent CESS appropriately reflects stakeholder feedback.

Energy Networks Australia also considers that specific measures, such as the proposed Network Innovation Scheme (NIS), are critical to ensure that optimal levels of investment in network innovation can be delivered.

Greater focus on innovation is key to the long-term future of natural gas supply. Innovative initiatives that deliver ongoing service improvements, including decarbonisation of gas supply, can drive optimal outcomes for gas customers and energy system as a whole. It is vital that the regulatory framework appropriately allows and incentivises such innovation.

Finally, we note that AGN has undertaken a robust stakeholder engagement program, which demonstrates its commitment to making genuine efforts to effectively engage with customers and to increase stakeholder transparency in the development of access arrangements proposals.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'John Bradley', written in a cursive style.

John Bradley
Chief Executive Officer