9 August 2019

Mr Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Email: JGNGAAR2020-25@aer.gov.au

Dear Mr Roberts

RE: JEMENA GAS NETWORKS (NSW) ACCESS ARRANGEMENT PROPOSAL 2020-25

Origin Energy appreciate the opportunity to provide a submission to the Australian Energy Regulator's (AER) assessment of the access arrangement proposal submitted by JGN Gas Network (JGN) for its NSW gas distribution network for the period 2020-25.

Origin acknowledge the extensive and comprehensive customer engagement process undertaken by JGN to inform its proposal and the concerted effort to incorporate the long-term interest of customers in its forward planning. Origin note also that JGN has been proactive in engaging with retailers in the lead up to this access arrangement and appreciates the opportunity to participate in the early formulation of the proposal.

We also appreciate JGN's focus on delivering affordable gas to customers with the proposal delivering a network bill decrease of 18 per cent over the 2020-25 period (of which 7 per cent is attributable to the remittal decision and the AER's remade decision). Similarly, Origin acknowledge JGN's efforts to contain expenditure growth in the 2020-25 period and the ongoing cost saving initiatives such as the business transformation program and productivity improvements.

Origin agrees that demand for gas is expected to be lower than that in the 2015-20 period and we support JGN's targeting of boundary meters and associated embedded networks for new high-rise sites as a source of future growth. However, we consider there is likely to be more downside risk to the demand forecast particularly with respect to population growth and the penetration rate and encourage the AER to scrutinise these forecasts.

As indicated, Origin supports the JGN initiative to grow its market in new high-rise embedded networks. While we are supportive of making tariffs more attractive for boundary meter customers, we consider there is further scope to encourage uptake, particularly for smaller developments. Accordingly, we suggest that JGN consider offering a stepped fixed cost tariff component (rather than the proposed single fixed cost). We consider a fixed cost that varies according to the size of the development would further encourage uptake.

We note the proposed reduction in forecast capex for the 2020-25 period compared to actual expenditure in the 2015-20 period. Given the significant capex underspend across most expenditure categories in the 2015-20 period, we have some concerns regarding the forecasting methodology for

2020-25, particularly as it relates to risk management and condition-based replacement. We encourage the AER to review the robustness of the 2020-25 forecasting methodology to ensure any previous deficiencies have been addressed. We note also, that a significant contributor to the forecast reduction in capex relates to the proposed expensing of previously capitalised corporate overheads. We consider that JGN have failed to provide a sufficient rationale for the expensing of these costs and do not consider that it complies with accepted cost allocation principles.

In light of the potential for decarbonisation of the NSW gas network, JGN have proposed that the 2020-25 period (a period of reduced forecast gas prices) represents an opportune time to implement initiatives that help secure the long-term viability of the network. Accordingly, JGN propose to apply accelerated depreciation for new capex across a wide range of asset classes to apply from 2020-21. While Origin agree that there are uncertainties associated with the gas network that have the potential to impact its future development, we do not consider it prudent at this time to implement accelerated depreciation. In particular, we note there are conflicting views regarding the adaptability and cost competitiveness of the gas sector in the face of decarbonisation.

Further, we are concerned with the opex and capex investment incentives where the network continues to be serviced by a range of assets with substantial remaining technical lives, but that no longer earn a return for JGN. We consider that the gas network and customers would be better served by a further reduction in prices at this time and that more certainty is required before a move to accelerated depreciation or other similar initiatives is implemented.

Our comments regarding the JGN proposal are provided in detail in Attachment A.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at gary.davies@originenergy.com.au.

Yours sincerely

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Attachment A

Demand forecasts

JGN engaged Core Energy and Resources (Core) to prepare an independent forecast of gas customers and demand for the 2020-25 period. Residential demand forecasts are provided in Table 1 below.

Table 1: Residential demand forecast[1]

	2009-18 (%)	2021-25 (%)
Connections	3.08	1.45
Demand per connection	-1.04	-0.55
Demand	1.89	0.90

Core suggest that the forecast increase in residential demand is due to a steady increase in connections; underpinned by NSW population growth, expected new dwellings in the Greater Sydney region and larger apartment buildings that use centralised hot water systems. Connections growth is offset to some extent by a continued decline in volume per connection; which in turn is driven by appliance and efficiency trends. The forecast growth in demand is slower than the current period, due to a lower level of forecast new dwellings in the NSW economy and a targeted policy favouring boundary connections whereby multiple high-density dwellings exist under a single connection (see boundary metering comments section below).[2]

The penetration rate (73 per cent) is forecast to remain around historic levels supported by connection to larger apartment buildings (capturing all dwellings within the development) and a forecast recovery in the proportionate share of detached estates. This is relevant given that a higher penetration rate supports demand for gas. While an increase in demand impacts per unit cost under price cap regulation, it also has implications for capital and operating expenditure.

Core note that there is more downside risk to gas demand than upside risk due to the potential introduction of new renewable energy schemes.

Origin consider that the forecast methodology appears robust. We note that Core has revised its methodology compared to that used in the 2015-20 access arrangement and is largely consistent with that used by AEMO.

Origin agree that the downside risk to demand growth is more prominent. For example, we note that Core use NSW Treasury population growth projections and that these are at the high end of comparable ABS projections. Further, we acknowledge current policy uncertainty and note the potential for a more pronounced decline in demand per connection particularly if issues arise in relation to embedded networks. For example, we note there is ongoing concern regarding customer protections associated with embedded networks. If these were to develop, there is potential for reduced demand for boundary metering and associated embedded networks.

In light of these considerations, ongoing price pressures and the availability of alternative technologies, Origin consider the assumed penetration rate may be ambitious. We do not consider that Core has sufficiently substantiated the proposed 73 per cent penetration rate and request a more detailed assessment be provided.

We encourage the AER to scrutinise these forecasts in light of JGN's proposed market expansion expenditure over the regulatory period.

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[1] JGN, *2020-25 Access Arrangement Proposal*, Attachment 8.2, p.15.
[2] JGN, *2020-25 Access Arrangement Proposal*, Attachment 8.2, p.36.

Boundary metering for new high-rise developments

JGN consider that boundary metering (and embedded network providers (ENP's)) is its fastest growing metering solution, forecasting that boundary gas metering will increase from approximately 13,000 apartments at present to around 106,000 apartments by 2025.

JGN seeks to promote the development of the ENP market. Specifically, for new high-rise sites or other centralised hot-water developments that receive their Construction Certificates after 1 July 2020, JGN will offer two connection solutions:

- individual gas metering, where the high-rise has individual gas hot-water systems for each apartment i.e. not centralised hot water; and
- boundary gas metering, where the high-rise has a centralised hot-water system.

This means JGN will not offer hot water metering services to new sites from 1 July 2020. Where required, these will be provided by an ENP.

Origin agree that the ENP market represents a growth opportunity for JGN and support the focus on boundary metering solutions.

Origin note that, in an attempt to increase the attractiveness of boundary metering, JGN propose a significantly greater reduction in volume boundary customer tariffs compared to volume individual customers for 2020-21. Origin support this initiative. However, we note that the fixed charge component of the volume boundary metered tariff remains high relative to that in other jurisdictions. Origin consider that the relatively high fixed charge represents an impediment, especially for smaller apartment complexes, with the cost necessarily shared over fewer customers. We suggest there is merit in adopting a stepped fixed charge, where the charge varies depending on the number of apartments in the development. We consider that such an approach not only benefits customers but also improves the attractiveness of gas as an energy option and helps maximise uptake of the ENP offering.

Capital expenditure

JGN predict a 6.3 per cent underspend in capital expenditure (capex) in the 2015-20 access arrangement period relative to the AER allowance. While connections capex is predicted to exceed the AER allowance by 49 per cent, this is offset by expected underspends in most other expenditure categories – Metering (-45 per cent), Facilities and Pipelines (-38 per cent), IT (-20 per cent), Augmentations (-55 per cent) and Mains Replacement (-55 per cent).

Connections expenditure was impacted by an unanticipated surge in the number of new (mainly high-rise) dwellings. JGN note that it was able to fully offset the increased investment in connections via reductions in other investment categories, including by deferral of other expenditure (e.g. meters) and cancellation of the Moomba to Sydney pressure upgrade by APA.

While Origin acknowledge that forecasts can change within period, we have concerns with the apparent ease at which investments were able to be reprioritised in order to accommodate the unanticipated increase in connections capex. In particular, the ability to defer capex, for example in relation to metering, raises questions in relation to the robustness of the original forecasting methodology. The deferral of metering replacement appears to indicate that the JGN forecasts relied more heavily on an age-based rather than condition-based methodology in determining replacements. The apparent absence of identified customer-related or service issues associated with the significant underspend in non-connections capex during the period also raises questions regarding the risk-management approach adopted in generating the 2015-20 forecasts and whether these were over-forecast to begin with.

We encourage the AER to scrutinise the 2020-25 forecasting process to ensure that any deficiencies in the 2015-20 forecasting process have been addressed by JGN in generating the 2020-25 capex

forecasts. In particular, we seek assurance that the appropriate risk management assessment has been undertaken in developing forecasts and that a condition-based replacement program has been rigorously applied.

JGN forecast total 2020-25 capex to decrease 11 per cent compared to actual expenditure in the 2015-20 period. The majority of the decrease is due to a significant reduction in forecast connections investment and the proposed expensing of previously capitalised corporate overheads.

The forecast decrease in connections capex reflects an anticipated reduction in both the number of connections and in the average cost per connection relative to the current period. We note also, that the JGN proposal to no longer install individual hot water meters for high-rise apartments results in a $30 million reduction in capex over the period. Origin agree that growth in connections will be lower than in the 2015-20 period, however, as previously indicated, we consider there is more downside risk to connections growth than forecast by JGN. Accordingly, we consider forecast connections capex is likely to be lower than forecast by JGN and encourage further analysis by the AER.

While expenditure in other capex categories (Metering, Facilities and Pipelines, Augmentation and Mains replacement) is forecast to increase next period, we note that expenditure levels remain below those allowed by AER in the 2015-20 period. Origin acknowledge that JGN has adopted a medium-term investment strategy for replacement expenditure and has attempted to minimise overall expenditure where possible. However, we encourage the AER to scrutinise the forecasting methodology to ensure that the risk management framework is appropriate, particularly in relation to the application of the proposed medium-term investment strategy and that expenditure levels are sufficient to maintain service standards.

Further, Origin seek assurance that capex-opex trade-offs have been appropriately considered in developing the capex (and opex) forecasts. We also seek further confirmation that savings in forecast capex in the 2020-25 period will not lead to increased expenditure in future periods (e.g. on reactive maintenance).

In relation to corporate overheads, Origin consider that JGN have failed to provide a compelling argument to support its proposal to expense these costs and therefore we do not support this proposal (refer to our comments in relation to forecast opex below).

Operating expenditure

JGN indicate that forecast operating expenditure (opex) for the 2020-25 access arrangement period is $1,037 million (excluding debt raising costs). This is approximately $120 million greater than JGN's actual and estimated opex for the 2015-20 period. JGN indicate that the increase in expenditure for the 2020-25 periods is due to:

- an additional $48 million on specific forecasts and step changes, primarily driven by UAG and the reclassification of pigging and inspection costs;
- $39 million in savings arising from JGN's business transformation plan – largely comprised of redundancy payments;
- a proposed change in the treatment of the corporate overheads from 1 January 2021, accounting for $75.8 million in additional opex over the period;
- adding $53.3 million for input cost and scale escalation; and
- reduced opex via ongoing productivity, totalling $19.4 million.

Origin make the following comments in relation to JGN's forecast opex:

- we welcome the proposed productivity target of 0.74% per annum and note that this is supported by econometric analysis;

- while Origin support the business transformation program in principle, we request further information regarding the program. In particular, Origin seek to understand the business-wide impacts and service quality implications of the program and confirmation these have been appropriately considered in formulating the program;
- we note that JGN's forecast labour costs are based on the average of the corresponding forecasts contained in the BIS Oxford Economics (engaged by JGN) and Deloitte Access Economics (forecast for the NSW utilities' industries commissioned by the AER[3]) reports. We consider this to be an appropriate approach; and
- Origin note that the proposed expensing of corporate overheads (and expensing of pigging costs) is the primary contributor to the increase in forecast opex during the period. Origin's concerns with the proposal are outlined separately below.

Expensing corporate overheads

Corporate overheads are costs associated with corporate functions that are necessary to provide reference services. JGN typically capitalised approximately 40 per cent of corporate overheads up to, and including, the 2015- 20 period.[4]

From 1 January 2021 JGN propose that all corporate overheads will be expensed. JGN argue that this will provide alignment between JGN's regulatory and accounting treatment of corporate overheads and better reflects the nature of these overheads. It is also aligned with the JGN Electricity Networks (Vic) Ltd treatment of these costs. The effect of this change is to increase JGN's opex base year by $16.8 million per annum or $75.8 million in total.

Origin consider that JGN has not provided sufficient rationale for the proposed reclassification of corporate overheads to an expense item. In particular, there is no requirement for regulatory and statutory accounts to align. Regulatory accounts are special purpose accounts prepared in order to provide financial information about the regulated business for use by the regulator, the industry, consumers and other stakeholders. They provide information that is more focused than that contained in statutory accounts as they relate to the regulated businesses or activities.

Further, appropriate cost allocation is a fundamental component of regulatory accounts. Cost allocation should be based on the principle of causation. That is, costs are required to be attributed in accordance with the activities which cause the costs to be incurred. Origin consider that JGN have failed to demonstrate a causal link between corporate overheads and operating activities. Origin consider it unrealistic to assume that all unallocated corporate overheads are opex in nature – we would expect at least some attribution to capital projects.

Origin note that, with respect to electricity networks, the National Electricity Rules NER 6.15.2(3) requires costs allocated to a particular category of distribution service to be either:

- costs which are directly attributable to the provision of those services; or
- costs not directly attributable are allocated using an appropriate allocator.

While we acknowledge that no such provision exists in the National Gas Rules, we note that the application of an appropriate allocator for unattributed costs is a well-accepted cost allocation principle. We note that JGN's Cost Allocation Methodology (CAM) for the 2020-25 period appears to indicate that an allocator (direct costs) is applied to corporate overheads. Specifically, the CAM states that corporate overhead costs:

[3] Deloitte Access Economics, Labour Price Growth Forecasts prepared for the AER, 28 February 2019.
[4] JGN, *2020-25 Access Arrangement Proposal,* Attachment 6.1, p.11.

> *…cannot be exclusively linked to specific services, but are necessarily incurred in order for JGN to be able to pipeline services. These costs are captured in cost centres and then allocated on causal basis in proportion to direct costs for each service.*

However, the JGN CAM then goes on to state:

> *JGN will expense its corporate overheads for regulatory purposes consistent with changes to its accounting practice from the commencement date.*[5]

The expensing of corporate overheads appears contradictory to the principles of cost allocation and, as previously indicated, alignment with accounting practice is not a sufficient rational for the proposed treatment. Origin does not accept the proposed expensing of corporate overheads or the rationale provided by JGN and encourage the AER to review this proposal to ensure compliance with accepted cost allocation principles.

Expensing inspection and pigging costs

JGN are proposing to expense the costs associated with inspections and pigging from 2020-21 onwards. These costs are capitalised in the current access arrangement period. JGN argue that classifying pigging and inspection costs as opex more accurately reflects the nature of these activities. We note that the proposed change in treatment will increase forecast opex by $7.7 million over the 2020-25 period.

Origin consider that JGN have failed to provide an adequate rationale to support the proposed expensing of these costs and are concerned at the ongoing inconsistency in allocation applied by JGN. In particular, Origin note that in-line and integrity digs were expensed by JGN in the 2010-15 regulatory period. JGN successfully argued for the capitalisation of these costs in its 2015-20 Access Arrangement on the basis that capitalisation is consistent with its accounting treatment. For the 2020-25 Access Arrangement JGN now argue that these costs be expensed to "…better align with the short-lived nature of the benefits provided."[6]

Origin consider that the ongoing treatment of pigging and inspection costs appears arbitrary. We request more detailed information to support the proposed change in treatment and encourage the AER to closely scrutinise the proposal, particularly given the changing treatment over time.

Depreciation

Accelerated depreciation of network assets

JGN consider that the long-term viability of its gas network is under threat as a result of:

- declining average gas use per customer and increased electrification;
- a commitment by the Federal Government to reduce carbon emissions by 26-28 per cent on 2005 levels by 2030 and the NSW Government aspirational objective to achieve net-zero carbon emissions by 2050;
- challenges to domestic gas reserves identified in the Australian Energy Market Operator's (AEMO) 2019 Gas Statement of Opportunities (GSOO); and
- the infancy of hydrogen as a viable complement to decarbonise gas and lack of rules framework to support its optimal adoption under the NGR.

JGN contend that the NSW net-zero carbon target could make the gas network too expensive in the future to be competitive or even render the network infeasible to operate. Should this eventuate, JGN is

[5] JGN, *2020-25 Access Arrangement Proposal*, Attachment 6.5, pp.5-6.
[6] JGN, *2020-25 Access Arrangement Proposal*, Attachment 7.9, p.9.

concerned that it will not be able to recover all of its network investments, particularly in the case of long-life assets. JGN suggest that the economic lives of its gas network assets are now likely to be much shorter than the technical engineering design lives that informed the current rates of regulatory depreciation.

As part of its response to these developments JGN are proposing a change to the asset lives for new investments from 1 July 2020 and hence an accelerated depreciation profile. Specifically, JGN propose to shorten the future asset lives for 10 of its 24 new asset classes. JGN consider that the change will better match utilisation and cost recovery for future investments in the network for these asset types. Key asset classes and proposed lives are set out in Table 2 below.

Table 2: Proposed changes to asset lives for new investments[7]

Asset Class	Current standard lives (years)	Proposed standard lives for new investment (years)	Percentage of capex in asset class compared to capital program as a whole
Trunks	80	50	0
High pressure mains	80	50	13
Meters/meter reading devices	20	15	21
Medium pressure mains	50	30	15
Medium pressure services	50	30	32

JGN argue that the proposal:

- is consistent with the depreciation criteria in the National Gas Rules;
- is consistent with the user pays principle by aligning who pays with who values the service most, as between current and future customers;
- allows JGN to recover forecast investment costs in a manner that least distorts demand for services over time; and
- maintains JGN's incentives for efficient investment amid future gas market uncertainty.

JGN indicate that the revenue impact of changing the standard asset lives for this subset of asset classes is $22 million over the 2020-25 period ($3 per customer per year more over this period). JGN consider the 2020-25 period provides an opportune time to apply the asset life change given the proposed price reductions over the period.

Origin acknowledge the current climate of uncertainty surrounding gas networks. However, we have some concerns with the proposed accelerated depreciation strategy, in particular, Origin consider that there remains considerable uncertainty regarding the future of the gas network, particularly in relation to the impact of net-zero carbon initiatives. In contrast to JGN, some industry participants are optimistic about the future. For example, the Energy Networks Australia (ENA) *Gas Vision 2050* suggests that decarbonisations represents an opportunity for the gas sector, noting:

> *The gas sector is well-placed to provide reliable and secure energy and cost-effective carbon reductions by 2050.*[8]

Similarly, the ENA, *Decarbonising Australia's gas networks* found that:

> *there are a variety of decarbonised gas options that are likely to be cost competitive with electrification over the long term.*[9]

[7] JGN Gas Networks (NSW) Ltd Attachment 7.10, p. 1
[8] Multiple authors, *Gas Vision 2050: Reliable, secure energy and cost-effective carbon reduction*, p. 5.
[9] Deloitte Access Economics, *Decarbonising Australia's gas distribution networks*, 2017, p. 6.

It is clear there are differing views on the future of the gas sector in the face of decarbonisation, both pessimistic and optimistic. At this stage it is not clear that the proposed asset classes will necessarily become redundant before the end of their technical lives as suggested by JGN. Accordingly, Origin consider it prudent to defer any decision to alter asset lives at least until such time as there is more clarity with respect to the role of gas networks in a decarbonised environment

Origin is also concerned with the investment/maintenance incentive arising from the proposed reduction in asset lives. That is, the proposed asset classes have a technical life, in some cases, significantly longer than the proposed revised asset lives. Once the asset is fully depreciated (and no longer receiving a depreciation allowance or return on the asset), there may be less incentive to maintain the asset appropriately and/or to replace the asset early. This raises the prospect of increased (and potentially inefficient) future capital expenditure.

JGN note that the shorter lives are only applied to new capex for these asset classes and therefore represents only a small increase in depreciation expense. However, Origin note that depreciation expense will increase over time (relative to the depreciation expense incurred if current asset lives are maintained) as current assets are replaced with new (shorter life) capex. Origin appreciate that the increase in depreciation allowance is offset by a reduced RAB, but prices are impacted in the short to medium term. We note that long-life assets make up over 80 per cent of capital expenditure and therefore the potential impact of accelerated depreciation of these asset classes in likely to have a more pronounced impact on the depreciation expense and customer prices over time.

Origin also seek clarification from JGN regarding the future treatment of these (capital expenditure) asset classes if net-zero carbonisation does not materialise or, conversely, if carbonisation of gas becomes viable (and cost competitive) and net-zero carbonisation is possible using the existing network. That is, does JGN intend to revisit asset lives once the future of the gas network becomes more certain. For example, does JGN intend to revert to the technical lives of the assets or continue with the shorter life accelerated depreciation approach to these asset classes?

Given the above considerations, Origin does not support JGN's accelerated depreciation proposal at this time. Our preference is for reduced gas prices to maintain the competitiveness of gas. We encourage the AER to conduct a thorough review of the accelerated depreciation proposal to determine the prudency of this approach and whether it is in the best interest of consumers.

Accelerated depreciation of inspection and pigging costs

JGN are also proposing to accelerate depreciation of existing high-pressure pipeline inspection and pigging costs which are currently included in the regulated asset base so that they are fully depreciated by 2024-25. JGN argue that accelerating depreciation will reflect the usage (or economic life) of these assets.[10] The revenue impact of this proposal over the 2020-25 period is $15 million.

Origin consider that JGN have failed to substantiate the proposal to apply accelerated depreciation to inspection and pigging costs. Consistent with our argument in the preceding section, we do not support the proposal.

Year-on-year tracking

JGN are also proposing to implement the year-on-year tracking method to depreciation rather than the conventional weighted average remaining life approach.

In principle, Origin support the application of a more granular approach to depreciation but note that the year-on-year tracking method has the potential to increase prices via an increase in depreciation

[10] As noted in our opex comments, JGN are proposing that new inspection and pigging costs are expensed from 2020-21 onward.

expense. We encourage the AER to review the impact of the year-on-year tracking approach on prices to determine the appropriateness of the approach at this time.

Capital Efficiency Sharing Scheme

JGN's proposal to introduce a capital expenditure sharing scheme (CESS) is supported as this will align capex expenditure incentives with the regulation of electricity distribution networks. Further, we note that the proposed CESS will complement the existing efficiency benefit sharing scheme.

Reference Service Agreement

Definitions – Loss/Consequential Loss

It appears loss/consequential loss is very specifically and comprehensively defined and it appears that consequential loss is a subset of loss. This means, unless expressly included, consequential loss will be included wherever loss is referenced. Origin is concerned with the inclusion of the following items in the definition and seeks further clarification:

- insurance premiums;
- advisor costs on indemnity basis;
- penalties and fines - Origin note that it is often not possible to pass these on under law; and
- unascertained losses – we question how JGN can claim such losses when it is unclear what they are.

Origin also seek clarification whether the application of "Third Party Claim" is symmetrical, that is, is it possible for Origin to claim recoveries or does this only apply to JGN?

Clause 10.5 – User to satisfy JGN

Origin note that the clause appears to place all obligation on the user. Origin consider that the responsibility should reside with the party best placed to provide the information at the receipt points and seek confirmation from JGN that an appropriate assessment of the responsible party has been conducted.

Clause 10.8 – Exemptions to specifications

Origin request that JGN provide specific details of the contemplated exemptions. In addition, Origin question whether it is appropriate that the user bears all risk relating to government intervention. We consider that the risk should be borne equally by the parties involved.

Clauses 10.9 – Gas source, 10.10 - User responsible for Gas Testing, 11 - Gas Testing by User

Origin note that the clauses appear to place all obligations associated with gas sourcing and testing on the user. We note however, that it is not always possible for a user to know the physical source of gas and the quality of gas delivered. In addition, Origin consider that clause 10.10 could not reasonably be met by the user purchasing gas from the short-term trading market. Accordingly, Origin request that JGN amend the clauses to reflect the potential inability of users to fulfil the obligations associated with gas sourcing and testing.

Clause 12 – Deletion of delivery points from Customer List (clause 12(a)(iv))

Clause 12(a)(iv) appears to indicate that JGN has issues accessing its own measuring equipment. Origin note that in many cases these are unknown consumers for which the retailer does not have customer or site information and seeks clarity on the intent of the clause.

Origin note that clause 12(b)(i) removes the delivery point from the relevant Customer List 20 business days after the disconnection request. We consider that standing charges should cease for that delivery point on disconnection. However, it appears that the user is still charged for those 20 business days

although the service has ceased. Origin note that these sites are likely to become unclaimed and if the customer starts consuming, they will be allocated to a retailer. Origin seek an improved process and clarity on why it takes 20 business days after the disconnection rather than the date of disconnection for a delivery point to be removed from the Customer List.

Origin require a clause to be added that gives an option for JGN to delete the Delivery Point from the Customer List if best endeavours have been made by a retailer to disconnect or transfer a customer and this is not done due to JGN's inability to do so.

Clause 15.9 – Disconnection and abolishment of Delivery Points

Clause 15.9 sets out the core obligations of JGN to disconnect delivery points on Origin's request. Under clause 15.9(a), JGN is required to disconnect supply of gas (by such means as JGN in its discretion acting reasonably determines), or decommission a delivery point by removal of meters, regulators and filters, unless JGN reasonably considers that obligations under relevant laws or the customer connection contract relating to disconnection or decommissioning have not been met.

In addition, clause 12 of the Reference Service Agreement (RSA) imposes obligations in relation to the removal of customer delivery points from the 'relevant customer list' once they are disconnected or decommissioned, after which point JGN is no longer entitled to recover network charges from Origin for that delivery point.

However, Origin note that JGN has failed, or refused, to disconnect gas sites within its New South Wales gas distribution network for which Origin is financially responsible, and that this is often related to the physical limitations of its network. Specifically, JGN are not disconnecting gas supply in instances where:

- JGN are having problems accessing the meter; or
- the meter is located inside the premises, the address is an apartment building and there is no customer contact name and number; or
- the address is a lot number without a customer contact name and number.

While Origin consider these sites were not disconnected in accordance with Origin's requests, JGN continues to impose network charges. As a result, Origin has incurred, and continues to incur, significant financial losses. Origin has disputed a number of the relevant network charges as part of B2B network billing processes and have been seeking to resolve this issue by:

a) working with JGN since mid-2016 to escalate Origin's highest value sites for which disconnection was requested; and
b) since early 2017, engaging in regular disconnection performance discussions and workshops (with escalations to management-level meetings over time).

While this has resulted in a small number of sites being disconnected, Origin consider that the key issues in dispute have not been resolved. On the basis of the persistent and ongoing failure of JGN to disconnect sites as requested by Origin, we consider that:

- clause 15.9 of the RSA does not provide JGN sufficient incentive to disconnect customers and is unacceptable in its current form; and
- the continued application of network charges by JGN is inconsistent with clause 12 of the RSA.

Origin note that although clause 15.9(a) gives JGN a degree of discretion as to how a disconnection will be carried out ('by such means as JGN in its discretion acting reasonably determines'), we do not consider that it can be read as meaning they can choose not to disconnect at all, or to fail to try to employ reasonable methods of disconnection that might be available (e.g. street disconnections, where this

could reasonably be achieved). Origin consider that the term 'reasonably determines' in clause 15.9(a) is not acceptable as it imposes little obligation on JGN to disconnect.

Similarly, Origin consider that clause 15.9(c) of the RSA removes any liability on JGN for a disconnection when it is unable to obtain clear and safe access to perform the work required for disconnection or abolishment. Origin find this clause absolves JGN of any responsibility to complete disconnections and is unacceptable.

Further, to the extent that it can be said that JGN has failed to comply with its obligations to disconnect or decommission a site and then remove it from the relevant customer list as per clause 12 of the RSA, it follows that JGN should not have been continuing to impose network charges on Origin after the time at which the site should have been removed from the relevant customer list.

Origin consider that the current JNG process for disconnections does not provide adequate incentive for JGN to disconnect customers and unreasonably penalises Origin, via ongoing network charges, for JGN's inability/unwillingness to disconnect. We consider the current disconnection process is unacceptable. Accordingly, Origin seek the implementation of, and adherence by JGN to, an adequate process for disconnections going forward. This would include, amongst other things:

a) the introduction of a 'street disconnection' service for a reasonable charge;
b) JGN ceasing to apply network charges (and compensating Origin for energy usage) where disconnections are unsuccessful or declined by JGN;
c) an improved process for escalating high-value sites; and
d) where a meter has been removed or is unable to be located, further network charges to not apply and revise consumption for the affected period.

Clause 15.9(b)

Origin consider that while the provision of clause 15.9(b) may be acceptable for an abolishment, we do not consider it acceptable for a disconnection. Specifically, Origin expect the service to be split between de-energisation and re-energisation costs.

Origin consider that the term 30 days to "offer" and disconnection subject to the "offer" does not provide retailers with sufficient clarity on timeliness regarding disconnections. We request clarification on the mechanism where parties cannot agree on the offer.

Clause 15.9(d)

Origin seek clarification on the reasoning behind 15.9(d)(ii) where a demand point is disconnected (not abolished) but a user would have to request a new connection. If a demand point is disconnected (not abolished), Origin would expect that only a reconnect should be required.

Clause 15.9(e)

As per our previous comments in relation to clause 15.9(b), Origin disagree with the concept of the "offer". Further, it is not clear whether JGN expect the retailer to provide access or the retailer to provide contact details and we request clarification.

Origin consider that the risk and obligation is not appropriately shared in this clause and is inappropriate given JGN are best placed to mitigate the risk as the asset owner. Further, where the retailer has customer information, this is limited to the de-energisation reason, and other limited customer information. JGN holds information about the site as the asset owner and also has responsibility to obtain the information.

Origin also question the application of the clause to unknown consumers where the retailer does not have customer information. Accordingly, Origin require a separate clause or exclusion to be included for unknown consumers.

Clause 15.9(f)

Origin seek clarification regarding the circumstances under which the application of this clause is warranted.

Clause 16.4 - Maintenance of basic metering equipment

Origin note that under NECF, JGN has an agreement with the end user and can therefore procure its own co-operation of the customer. Clause 16.4(b) requires JGN to be able to secure access to the Delivery Station. Origin consider that this obligation should not be solely the user's if JGN has issues with meter access.

Clause 16.5(b) - Safe access to measuring equipment

As discussed above, under NECF, JGN has an agreement with the end user and can therefore procure its own co-operation of the customer. Origin seek clarification from JGN on what is considered reasonable assistance.

Clause 16.6 - Entry and access to Delivery Points

Origin consider that this clause needs to be limited to specific situations. In addition, as above, Origin seek clarification from JGN on what is considered reasonable assistance. Also, we consider it would be reasonable for one to expect prior notice to be given to the user and request the clause be amended accordingly.

Clause 16.7 - Consequences of no access

Origin consider that JGN should be dealing with the customer regarding meter relocation. Further, similar to our concerns regarding cause 15, Origin consider there is a misallocation of financial risk and this means that JGN are likely to over-recover and potentially customers over-pay where JGN considers it is unable to gain access.

Origin request that JGN include an additional clause that notifies the retailer when it carries out one of the clauses under clause 16.7.

Clause 17.5 – Deleted clause

Origin seek clarification regarding the removal of JGN's obligation to notify and investigate erroneous meter data information.

Clause 20 – invoicing and payments

Origin seeks clarification regarding the inclusion of this clause given the provisions are already covered under the National Energy Retail Rules.

Clauses 26 and 27 - Indemnity and liability (clauses 26.2, 26.3, 27.2 and 27.5)

Origin note that the indemnity and liability provisions are generally heavily in favour of JGN. Origin consider it unreasonable that the user should have to accept exposure to consequential loss and consider that, as a general principle, mutual exclusion is appropriate. We seek clarification from JGN regarding the rationale for the application of the indemnity and liability provisions and the assignment of responsibilities between users and JGN.