27 March 2015

Sebastian Roberts
General Manager
Network Opex and Coordination
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Roberts

AUSTRALIAN ENERGY REGULATOR'S DRAFT DECISION AND JEMENA GAS NETWORKS' REVISED ACCESS ARRANGEMENT PROPOSAL

Origin Energy LPG (Origin) appreciates the opportunity to provide a response to the Australian Energy Regulator's (AER's) Draft Decision and Jemena Gas Networks' (JGN's) Revised Proposal in relation to the Access Arrangement for JGN's New South Wales (NSW) gas distribution network for the 2015-2020 period.

It is clear that customers are becoming increasingly sophisticated and engaged, demanding responsive customer service, efficiency, transparency and value for money. The JGN Access Arrangement is an important factor in a retailer's ability to deliver quality gas services to customers. The Access Arrangement therefore needs to support effective operations and set a reasonable revenue allowance and efficient service fees as shortcomings in these areas can impede a retailer's operations and increase customer costs.

In the interests of ensuring a high level of service and value for money to customers, Origin supports the majority of the AER's findings in its draft decision, particularly in relation to JGN's revenue components. It is disappointing, however, that many of the AER's required amendments are not adopted in JGN's revised proposal, which remains largely unchanged from JGN's initial proposal. In our view, the AER has taken a pragmatic approach to determine a revenue amount that balances the operational needs of the network against customers' service requirements. We do not consider JGN has put forward a reasonable and well-supported argument against the AER's draft decision.

That being said, the headline item in JGN's revised proposal is a revised price path that provides smoothed real price reductions over the Access Arrangement period for all customers except the largest business customers. For these largest business customers, the price path sees small real price increases to return them to cost reflective network price levels. While we do not support JGN's total revenue proposal, we do support the intention of its price path over that proposed by the AER. JGN's approach better meets customers' preferences and expectations for price certainty by smoothing out the transition rather than introducing a large real decrease in the first year followed by small real increases in following years. In Origin's view, this promotes the National Gas Objective in a more preferable manner. We would encourage the AER to apply this implementation structure to its total revenue decision.

In preparing our earlier submission to JGN's initial proposal, Origin's comments focused on informing an efficient Access Arrangement that would support our ability to offer a high quality, efficiently priced service to customers. However, it is unclear if and how the AER has considered comments made by Origin and other stakeholders to the consultation on the initial proposal. This lack of transparency has made it difficult to prepare this submission without repeating a number of our original concerns.

Origin Energy LPG limited ABN 77 000 508 369 • Level 45, Australia Square, 264-278 George St, Sydney NSW 2000
GPO Box 5376, Sydney NSW 2001 • Telephone (02) 8345 5000 • Facsimile (02) 9252 9244 • www.originenergy.com.au

We suggest going forward that the AER provide a separate document cataloguing its response to all issues raised in submissions and indicating where in its decision there is a more detailed discussion of the issue, as appropriate. This will greatly assist all stakeholders to understand how their comments have been considered and provide more targeted responses to consequential consultations. We note JGN has provided such a document to us in relation to our comments as well as retailers' comments more broadly. Origin appreciates JGN's efforts here. This document was valuable in helping us to prepare our submission, including how best to navigate the large volume of information in both JGN's revised proposal and the AER's draft decision.

The remainder of this submission provides more detailed comments on specific aspects of the AER's draft decision and JGN's revised proposal.

Should you have any questions on this submission, please contact Lillian Patterson in the first instance on (02) 9503 5375 or lillian.patterson@originenergy.com.au.

Yours sincerely

Keith Robertson
Manager, Wholesale and Retail Regulatory Policy
(02) 9503 5674
keith.robertson@originenergy.com.au

Response to the AER's Draft Decision and JGN's Revised Proposal for the 2015-2020 Regulatory Control Period

Origin Submission

March 2015

Contents

1 Revenue Components

In spite of the AER's draft decision for a reduction of 15.5 per cent from JGN's initial total revenue proposal,[1] JGN's revised proposal maintains the position in its initial proposal of (in real $2015):

- gross capital expenditure of $1,145.3 million, compared with the AER's draft decision allowance of $941.9 million and an initial proposal of $1,148.5 million;[2]
- operating expenditure of $805.0 million, compared with the AER's draft decision allowance of $779.7 million and an initial proposal of $789.3 million;[3,4] and
- a rate of return of 7.15 per cent p.a., compared with the draft decision allowance of 6.80 per cent p.a. and an initial proposal of 8.67 per cent p.a..[5]

It is disappointing that JGN has not adopted many of the AER's required amendments to its revenue components and as such, its revised proposal remains largely unchanged. Origin appreciates the efforts made by the AER to assess JGN's initial proposal by applying consistent and transparent regulatory approaches to encourage JGN to undertake efficient investment and provide reliable services to consumers. In our view, the onus is on JGN to demonstrate how its challenges to the AER's draft decision and any new elements in its revised proposal are efficient, prudent and in the long-term interests of consumers. Its revised proposal does not do this.

On this basis, our comments focus on issues that represent material changes from JGN's initial proposal.

1.1 Information Technology

Capital Expenditure

Origin is concerned with the additional information technology (IT) capital expenditure that JGN is requesting in its revised proposal. In our view, JGN has not substantiated the need for the additional expenditure related to the business-to-business (B2B) harmonisation project, which aims to bring the NSW and ACT markets into line with other gas retail markets. We ask the AER to request a comprehensive breakdown of the additional expenditure and scrutinise whether the increase is appropriate over and above what has been approved in the AER's draft decision.

Table 1 compares JGN's initial proposal, the AER's draft decision and JGN's revised proposal for IT capital expenditure.

Table 1: IT Capital Expenditure ($2015, $millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
JGN initial proposal	37.63	31.04	33.47	18.66	10.82	131.61
AER draft decision	37.72	31.04	33.44	18.68	10.83	131.72
JGN revised proposal	42.53	30.69	33.13	18.52	10.76	135.63

Source: JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 73

[1] AER, *Draft Decision Overview,* November 2014, p. 10.
[2] JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 46.
[3] Excludes debt raising costs.
[4] JGN, *Response to the AER's Draft Decision & Revised Proposal,* 27 February 2015 , p. 89; AER, *Draft Decision Attachment 7 – Operating Expenditure*, November 2014, p. 7-13.
[5] JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 95, 100.

In its revised proposal, JGN claims a change of circumstances requiring it to modify its B2B and business-to-market (B2M) systems as part of the B2B harmonisation project. Accordingly, JGN now proposes additional IT capital expenditure for the B2B harmonisation project of $5.2 million ($2015, unescalated) in regulatory year 2016.[6,7] In our earlier submission and supplementary submission to JGN's initial proposal we questioned: (1) JGN's proposed IT capital expenditure in light of its overspend in the last period; and (2) the program currently underway for the B2B harmonisation project.[8] We now ask the AER to review JGN's already approved IT capital expenditure and the new amount proposed for the B2B harmonisation project to ensure its full IT capital expenditure amount remains reasonable and efficient and all additional proposed expenditure is above what has already been accepted in the AER's draft decision.

For example, JGN's initial proposal explained that its IT capital expenditure included completing the GASS+ replacement project, which will replace JGN's legacy asset and works management system with a SAP-based system.[9] In its revised proposal, JGN notes there are changes necessary to major systems such as to the SAP system for the B2B harmonisation project.[10] The AER should review these two projects to ensure the new costs are necessary and incremental to the already approved capital expenditure for the SAP project.

JGN's revised proposal also refers to a web portal through which customers themselves will be able to initiate a range of transactions such as new connections.[11] Through AEMO's B2B harmonisation project working group, we understand that at this stage the web portal is a concept only as JGN has been unable to provide retailers with details about its functionality. Given the limited development of this concept to date, JGN would need to demonstrate how its costing for this project is efficient.

Operating Expenditure

Similar to capital expenditure, Origin asks the AER to scrutinise the proposed estimate for additional operating expenditure related to the B2B harmonisation project to ensure the increase is reasonable and not already covered by approved operating expenditure amounts. As shown in Table 2, JGN proposes additional operating expenditure of $11.0 million ($2015) for the B2B harmonisation project.

JGN's revised proposal assigns $9.3 million ($2015) to compliance with new service levels. We question whether this relates to compliance with the Retail Market Procedures (RMP) or B2B harmonisation project aspects of the Access Arrangement. If the latter or a combination of the two, then the AER needs to ensure the Access Arrangement and Reference Services Agreement fully reflect the RMP. This is discussed further in an upcoming section.

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[6] This is a placeholder estimate based on JGN's understanding of the market consultation process at the time of its submission. At that time, a final decision had not yet been made to implement the B2B harmonisation project and JGN noted its intention to confirm this estimate in March 2015. The Australian Energy Market Operator released its final NSW/ACT Gas Build Pack and Retail Market Procedures to its industry working group on 27 February 2015. This confirms the decision to implement the B2B harmonisation project and outlines all final industry requirements. As such, JGN should now be able to provide a final estimate.

[7] JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 73.

[8] Origin, *Submission to Jemena's Access Arrangement Proposal*, 25 August 2014, p.9; Origin, *Further Submission to Jemena's Access Arrangement Proposal*, 5 September 2014, pp. 1-2.

[9] JGN, *Initial Access Arrangement Information*, 30 June 2014, p. 47.

[10] JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 74.

[11] Ibid, p. 74.

Table 2: B2B Harmonisation Operating Expenditure Step Change ($2015, $millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Compliance with new service levels	0.8	2.5	2.0	2.0	2.0	9.3
Energisation of customer-initiated connections (process and business solution)	0.2	0.0	0.0	0.0	0.0	0.2
Data validation	0.3	0.0	0.0	0.0	0.0	0.3
Retailer and market management	0.2	0.5	0.5	0.5	0.5	2.7
Total step change	**1.5**	**3.0**	**2.5**	**2.0**	**2.0**	**11.0**

Source: JGN, *Response to the AER's Draft Decision & Revised Proposal Appendix 5.4 – Operating Expenditure Step Changes Report*, 27 February 2015, p. 12

Nous Group Cost-Benefit Analysis

Origin recommends the AER examine the independent cost-benefit analysis prepared by the Nous Group for AEMO's B2B harmonisation project working group. This analysis provides an adequacy assessment of JGN's proposed increases in capital expenditure and operating expenditure. The estimates of the costs and benefits to NSW and ACT gas distributors provided in this report should be reconciled against the amounts JGN is now proposing for the project.

The Nous Group found the quantitative and qualitative benefits of harmonisation would outweigh the costs.[12] It found an implementation cost of $7.2 million and ongoing costs of $240,000 for the NSW and ACT gas distributors.[13] We question why JGN is proposing additional capital expenditure and operating expenditure in excess of the combined costs submitted to the cost-benefit analysis by all the NSW and ACT gas distributors. The Nous Group also found an upfront quantitative benefit of $2.6 million and ongoing yearly quantitative benefits of $1.0 million to the NSW and ACT gas distributors.[14] This indicates some additional efficiency in distributor systems and processes that have not been reflected in JGN's revised proposal.

Changes to Requirements in the Access Arrangement and Reference Services Agreement

JGN has been an active member of AEMO's B2B harmonisation project working group and has agreed to the new requirements within the RMP and the timeframes to implement systems for those new requirements in good faith. Origin expects the B2B harmonisation project requirements should be reflected in JGN's 2015-2020 Access Arrangement and Reference Service Agreement. To assist the AER, we draw attention to the below list of areas that we have assessed as requiring amendment.

- Clause 3.9 of the Access Arrangement – Industry has agreed that where networks plan to introduce new reference tariffs they should also be required to provide worked examples of how these tariffs will appear in the network billing at the same time. This would allow retailers to reconcile the charges as well as pass through the tariff.

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[12] JGN, *Response to the AER's Draft Decision & Revised Proposal Appendix 5.4 – Operating Expenditure Step Changes Report*, 27 February 2015, p. 8.
[13] Nous Group, *NSW/ACT Gas Market Reform – Cost Benefit Analysis*, 3 July 2014, pp. 14-15.
[14] Ibid, p. 16.

- Special meter reads tariff – JGN's proposal states it requires a minimum five business days advance notice period to undertake special meter reads. Clause 3.1.4 of the RMP requires that this be a minimum of two business days notice.[15]
- Clause 17.1(e) of the Reference Service Agreement – JGN's proposal states it will undertake a meter reading every 91 days (plus or minus four days). Clause 3.1.5(d) of the RMP requires that this is every 91 days (plus or minus two days).

Origin notes this is not an exhaustive list; for example, the network settlement and dispute process would also need to be checked against the RMP.

1.2 Rate of Return

Origin supports the AER's application of the processes and methodologies in the AER's Rate of Return Guideline (Guideline). As part of the Better Regulation reform program, the AER released the Guideline to set out how it determines the return that electricity and gas network businesses can earn on their investments. This followed a comprehensive public consultation period to provide stakeholders with extensive opportunities to raise and discuss matters. The Guideline provides certainty and predictability of outcomes in rate of return issues and a balance between the views of distributors and consumers.

We do not support the rate of return of 7.15 per cent put forward in JGN's revised proposal. In particular, we consider there is insufficient evidence to support the assertion that a transition to a trailing cost of debt approach set out in the Guideline will not provide JGN with an opportunity to recover at least efficient financing costs. While the AER's draft decision agrees to a number of elements for the rate of return, it has not accepted others, particularly where JGN departs from the Guideline. We support the AER's draft decision not to accept JGN's proposed rate of return of 8.67 per cent in place of an approved rate of return of 6.8 per cent. The AER considers this rate of return is commensurate with the efficient financial cost of a benchmark efficient entity with a similar degree of risk as that which applies to JGN in providing reference services.

Return on Equity

Origin supports the AER's draft decision on the return on equity. The AER adopts the foundation model approach outlined in the Guideline to determine a return on equity of 8.1 per cent.[16] This contrasts JGN's initial and revised proposals which give a weighted average of the return on equity estimates of 10.71 and 9.87 per cent respectively produced from four financial models.[17] In its initial proposal, JGN put forward extensive arguments to support its proposed method to calculate the return on equity. The AER has already considered and not accepted these arguments. In its revised proposal, JGN revisits these arguments but it is not clear that it provides sufficient new arguments that would warrant a departure from the position in the draft decision.

Return on Debt

JGN's revised proposal amends its return on debt approach based on changed market conditions. Origin does not consider JGN has provided a compelling argument for a revised transition approach. The AER's draft decision gives a return on debt of 5.93 per cent in comparison with JGN's initially proposed return on debt of 7.3 per cent.[18] JGN's revised proposal gives a return on debt of 5.33 per

[15] JGN, *Revised Access Arrangement (Clean)*, 27 February 2015, Schedule 2 p. 14.
[16] AER, *Draft Decision Attachment 3 – Rate of Return*, November 2014, p. 3-9.
[17] AER, *Draft Decision Overview*, November 2014, p. 36; JGN, ***Response to the AER's Draft Decision & Revised Proposal***, 27 February 2015, p. 100.
[18] AER, *Draft Decision Overview*, November 2014, p. 36.

cent, which is based on the approach set out in its initial proposal with revisions for a number of factors including the transition to the trailing average approach.[19]

Both JGN and the AER derive a return on debt using the trailing average approach. This is a change from the current period which applied an on-the-day approach. In JGN's initial proposal, it adopted the Guideline's trailing average approach and transition path to move from the current on-the-day approach to the new trailing average approach over a ten year period. Its initial view was the approach in the Guideline would result in a reasonable estimate of the return on debt for the benchmark efficient entity for the forthcoming period. This is a position JGN supported throughout the consultation process to develop the Guideline as it considered "a transition mechanism from the current cost of debt benchmark to the new benchmark…ensures that the assumed efficient debt management practices are fairly transitioned between the two".[20] The AER approved this approach in its draft decision.

In its revised proposal, however, JGN claims that in light of recent changes in financial market conditions and the AER's findings on current efficient debt financial practices, it is now clear that the transition in the Guideline will not result in reasonable estimates of the return on debt for benchmark efficient entities. It points to a drop of over 70 basis points in the debt risk premium (DRP) since its initial proposal. It suggests if the return on debt allowance were set using the current rate on-the-day DRP then the benchmark entity would under-recover its efficient financing costs by about $60 million over the next Access Arrangement period.[21]

As a result, JGN's revised proposal adopts a hybrid to the trailing average transition as it considers there is no proper basis to apply transitional arrangements to the DRP. Rather, a transition should only be applied to the component of the return on debt that is not already transitioned – the risk free (or base) rate component – while the DRP is simply rolled forward as a trailing average.[22]

Although JGN provides a lengthy discussion to support its changed position, Origin questions the underlying rationale for this and asks that the AER carefully assess JGN's explanations. Throughout the consultation process for the Guideline and in its initial proposal, JGN supported the transition approach and did not suggest this was conditional on prevailing market conditions at the time of the Access Arrangement revision process.

We note JGN's statement in its initial proposal supporting adoption of the trailing average approach and transition set out in the Guideline on the provision that "**this approach is applied properly and results in reasonable estimates of the return on debt for the benchmark efficient entity**".[23,24]

In its initial proposal, JGN noted it had previously argued that a transition is needed to implement any change from the on-the-day approach to either a hybrid portfolio, which it had also previously argued for, or a trailing average approach.[25,26] This was based on a view that businesses like JGN and Jemena Electricity Networks with smaller debt portfolios cannot issue debt evenly over the trailing average period (or use swaps effectively to mimic this) as is assumed under the trailing average approach. In this regard, JGN noted that for the purposes of estimating the return on debt for this Access Arrangement, it adopted the trailing average approach and transition set out in the Guideline, provided this approach was applied properly and results in reasonable estimates of the return on debt

[19] Ibid, p. 36; JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 100.
[20] JGN, *Submission on the Draft Rate of Return Guideline*, 11 October 2013, p. 1.
[21] JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 99.
[22] JGN, *Response to the AER's Draft Decision & Revised Proposal Appendix 7.10 – Return on Debt Response*, 27 February 2015, p. 2.
[23] Emphasis added by JGN.
[24] JGN, *Initial Access Arrangement Information Appendix 9.10 – Return on Debt Proposal*, 30 June 2014, p. 3.
[25] JGN's hybrid portfolio refers to a long-term average DRP and a short-term average risk free rate.
[26] JGN, *Submission on the Rate of Return Guidelines – AER Issues Paper*, 15 February 2013, p. 13.

for the benchmark efficient entity (as per the quotation above).[27] Origin suggests this comment relates to the use of a hybrid portfolio approach compared with a trailing average approach rather than the transition itself. As such, it is not intended to be linked to a reopening of the transition of the cost of debt based on market conditions.

1.3 Cost Pass Through Events

As a principle, Origin prefers that Access Arrangements are as consistent as possible across networks. As such, we generally support the AER's draft decision on JGN's initially proposed cost pass through events and JGN's efforts to include new events in line with other Access Arrangements.

Insurance Cap Event

Origin supports the inclusion of the insurance cap event, noting it is broadly similar to the insurance cap definition in other Access Arrangements, such as the 2013-17 Multinet Gas Access Arrangement and currently proposed NSW Networks Access Arrangement.

Natural Disaster Event

Origin supports the inclusion of the natural disaster event, noting it is broadly similar to the natural disaster event definition in other Access Arrangements, such as the 2013-17 Envestra (Victoria) Access Arrangement and currently proposed NSW Networks Access Arrangement.

Unlike other Access Arrangements, JGN does not include the reference service as part of the definition. It considers this is covered by the AER's decision making criteria specified in clause 3.4 of the Access Arrangement.[28] We consider this reasonable as the criteria are clearly linked to the reference service in clause 3.4. For the same reason that it is covered by clause 3.4, JGN omits from the definition that the event must not be caused by the acts or omissions of the Service Provider. As this is not as clear in clause 3.4, we suggest this should be included in the definition for the avoidance of doubt and to better align it with other Access Arrangements. In addition, other Access Arrangements link this clause to external insurance or self insurance. This is also a reasonable addition to JGN's proposed definition. As a result, we suggest the following wording from the 2013-17 Envestra (Victoria) Access Arrangement be used:

> any major fire, flood, earthquake, or other natural disaster beyond the control of Envestra (but excluding those events for which external insurance or self insurance has been included in Envestra's forecast operating expenditure) that occurs during the access arrangement period[29]

Terrorism Event

Origin supports the inclusion of the terrorism event, noting it is broadly similar to the terrorism event definition in other Access Arrangements, such as the 2013-17 Envestra (Victoria) Access Arrangement and currently proposed NSW Networks Access Arrangement. As with the natural disaster event, the terrorism event definition does not include reference to the reference service, which we consider reasonable.

[27] JGN, *Initial Access Arrangement Information Appendix 9.10 – Return on Debt Proposal*, 30 June 2014, p.14.
[28] JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 132.
[29] Envestra, *2013-2017 Victorian Access Arrangement*, April 2013, p. 13.

Insurer Credit Risk Event

Origin notes the inclusion of the insurer credit risk event, which has been approved in some Access Arrangements, such as 2013-17 Envestra (Victoria) Access Arrangement and 2013-17 Multinet Gas Access Arrangement, but has not been approved for the proposed NSW Networks Access Arrangement. Origin does not hold a strong view as to whether it should be included or not but from a principles perspective, it seems reasonable to include it because it is consistent with other gas distribution businesses.

We do, however, question JGN's rationale for excluding this from its materiality threshold and instead embedding the same threshold in the definition itself. This seems unnecessary and it is not justified in JGN's proposal.[30] Should the AER approve this definition, its explicit reference to the materiality threshold should be removed.

Gas Supply Shortfall Event

Origin notes the inclusion of a gas supply shortfall event. While this does not appear in any other current gas Access Arrangement, JGN considers it has the same operational intent as the supply curtailment event in the 2010-15 ActewAGL Gas Distribution Access Arrangement.[31] We do not consider the inclusion of a gas supply shortfall event is appropriate. In our view, managing potential shortfalls is a standard function of the network and operating the network in a potentially constrained environment where curtailments are a possibility has already been factored into JGN's management strategy and hence Access Arrangement proposal.

We encourage the AER to not approve this event. If it should, however, see merit in its inclusion, we caution against JGN's proposed drafting as it gives JGN unchecked discretion to determine what "materially insufficient gas" is and what constitutes an "interruption or reduction in the provision of the Reference Service". If a gas supply shortfall event is included, the conditions defining a gas supply shortfall should be explicitly given.

1.4 Price Path

The headline item in JGN's revised proposal is that despite no material adjustment to its proposal, it has adjusted its price path for different customer classes to allow residential customers network bill savings over the Access Arrangement period of up to 40 per cent (or $563 for small residential customers using 15GJ p.a.). Smaller savings are offered for medium/large residential customers and small to large commercial and industrial customers of between 19 and 37 per cent. The price path for the largest business customers (demand market) sees ongoing small real price increases totalling 13 per cent over the Access Arrangement period to return these customers to cost-reflective network price levels.

The revised price path is intended to provide smoothed real price reductions over the next AA period to help offset rises in wholesale gas prices, continue JGN's volume market tariff structure of minimising fixed costs and target the reductions in average prices to those customers most sensitive to movements in network prices, i.e. residential customers. With respect to the demand market, JGN notes the demand market was sheltered from price increases in 2011-15 to mitigate the impact of the carbon tax on these customers and to enable JGN to provide stability and certainty to this market. As such, it is appropriate to return them to cost-reflective price levels.[32]

[30] JGN, *Response to the AER's Draft Decision & Revised Proposal*, 27 February 2015, p. 138.
[31] Ibid, p.135.
[32] Ibid, pp. 113-4.

Origin supports the intention of JGN's revised price path as better meeting customers' preferences and promoting the National Gas Objective (NGO) in a more preferable manner compared with the AER's draft decision to have a steep decrease in 2015-16 followed by three years of end-retail price increases and then a final year decrease. We consider that keeping prices stable over the Access Arrangement period maximises the attractiveness of gas as a fuel of choice.

Origin, however, supports adjustments to total revenue in line with the AER's draft decision. This would mean the price path structure should be retained but the price levels should be revised in line with the AER's draft decision. The result would be comparable percentage changes across years but a lower total network saving over the Access Arrangement period.

1.5 Tariffs

Cogeneration

As mentioned in our submission to JGN's initial proposal, Origin supports JGN's new volume boundary meter and volume residential distributed generation tariffs.[33] The volume residential distributed generation tariff is intended for distributed cogeneration systems supplying residential or mixed precincts of a minimum 50TJ p.a. size. We note there are cogeneration projects that do not fit this definition as they are standalone systems and not distributed precincts. These projects are typically charged the demand capacity or demand throughput tariff with the demand capacity tariff being the default.

Given this expanded range of available tariffs for cogeneration projects under the new Access Arrangement, Origin seeks an assurance that existing projects will retain their current tariff class and that JGN will continue to engage with retailers to establish the best tariff arrangement for prospective projects. Having a range of tariffs available for cogeneration is beneficial to allow us to offer these innovative products to more customers. As important is our ability to provide our customers with certainty that although annual tariff adjustments are standard, their initial tariff offer is efficient and will not vary significantly over time due to a change in their network tariff class because this is an important factor when considering the economics of a project. Requiring tariff class adjustments for existing projects would not be in the best interests of customers as it creates unnecessary confusion and costs and has the potential to render existing profitable projects uneconomical.

Disconnection of Small Customers

In our submission to JGN's initial proposal, Origin opposed its proposal to discontinue the temporary disconnections service by consolidating the temporary disconnection and permanent disconnection charge into a single disconnection charge.[34] In particular, our submission explained that a single disconnection charge could result in higher costs for customers struggling with bill payment. We note other retailers' submissions also opposed the single disconnection charge. However, the AER's draft decision approves this proposal on the basis it is consistent with the NGO and National Gas Rules.[35]

We strongly urge the AER to reconsider this position. As a minimum, the disconnection service should be unbundled into a connection service and disconnection service. A separate connection service and disconnection service aligns with the general market move towards cost reflective pricing, which better promotes the NGO.

A lack of transparency around the disconnection charge is also difficult for consumers to comprehend and retailers to administer. Given an increased focus on energy affordability in recent years,

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[33] Origin, *Submission to Jemena's Access Arrangement Proposal*, 25 August 2014, p. 13.
[34] Ibid, pp. 10-11.
[35] AER, *Draft Decision Attachment 10 – Reference Tariff Setting*, November 2014, p. 10-13.

consumers are making larger efforts to examine their bills and scrutinise their charges. Having a single disconnection charge does not assist their ability to do this. For example, a single disconnection charge does not account for the different circumstances for which a temporary disconnection may be requested, such as if the site is reconnected after a customer has moved out and a new customer has moved in. As such, consumers do not face the true cost of their actions with either the incoming or outgoing customer paying for another consumer's decisions. This approach is not delivering cost reflective customer pricing.

A further complication arises where the retailer connecting the customer is different from the retailer processing the disconnection. Such a situation is inefficient, resulting in a mismatch of payments across JGN, customers and retailers. A more pragmatic, cost reflective and simple administrative approach would be to separate connection and disconnection charges. This approach would ensure consistency across jurisdictions, reduce confusion and complexity for customers, have a limited net impact for JGN and overall, better promote the NGO compared to a single disconnection charge.

2 Reference Service Agreement

2.1 Customer Service Focus

Similar to JGN's customer engagement process, retailers have been asking, listening and taking action to deliver more of what customers want from their retailer. Service delivery is becoming a point of competitive advantage and retailer differentiation. Customers are no longer simply consumers. They are becoming increasingly sophisticated and engaged, demanding responsive customer service, efficiency, transparency and value for money.

A retailer's ability to deliver a high level of customer service is being constrained by JGN's operational requirements and practices. We encourage the AER to give greater weight to the customer impact shortcomings that we raised in our submission to JGN's initial proposal. In addition to the single disconnection charge mentioned in the previous section, customer experience is being adversely impacted by the presentation of network bills in pdf format, metering accuracy and timeliness and the presence of a retailer representative when disconnecting commercial and industrial customers.

Metering Accuracy and Timeliness – Clause 16 and Annexure 6[36]

In Origin's experience, JGN has a significant number of gas meters and hot water meters that are not accurate. We have also experienced issues with JGN's timeliness in undertaking reads often due to system issues. In the last twelve months, we have had many occasions where our retail customer bills have been delayed due to missed meter reads. This is an ongoing challenge as rescheduling missed reads is problematic. Timely and accurate bills are a top priority for our customers and JGN's deficiencies in this area are seriously impeding our ability to meet customer expectations in this respect. As a result, we urge the AER to consider the suggestion in our submission to JGN's initial proposal to include an incentive mechanism to encourage JGN to improve the performance of its meter fleet accuracy and timeliness for the benefit of customers.

Presence of a Retailer Representative when Disconnecting – Clause 16.4[37]

In our submission to the initial proposal, Origin noted that JGN requires a retailer representative to be present when disconnecting a commercial and industrial customer. Discussions with JGN have indicated they consider disconnection for debt of commercial and industrial customers is a commercial issue between the retailer and the customer and so it is not reasonable that JGN should be required to act alone. We note that disconnections occur for reasons other than debt and that even in a debt

[36] Origin, *Submission to Jemena's Access Arrangement Proposal*, 25 August 2014, pp. 17-8.
[37] Ibid, p. 19.

situation, we do not ask that JGN act on our behalf in communications with the customer. It is not uncommon in other industries for a third party to undertake an activity for which it has responsibility but not in the presence of the other parties. Additionally, and as explained in our earlier submission, no other distribution business has this requirement. Requiring that a retailer representative be present at a disconnection adds an additional unnecessary cost to our operations, which is ultimately borne by the customer.

Presentation of Bills in pdf Format – Clause 20.1[38]

For both volume and demand customers, JGN periodically sends bills to retailers in pdf format. We appreciate that JGN provides daily reports in electronic format. However, periodic billing data is on an aggregated basis, which Origin must manually transcribe into a spreadsheet for reconciliation purposes. This is inefficient, particularly given the pdf information is drawn from a JGN spreadsheet. We would therefore appreciate receiving the original spreadsheet to facilitate timely data entry and reduce transcription errors. This would also reduce the frequency with which we query JGN's charges and hence the amount of additional charges received by us for JGN's investigations. This simple change in process would improve our ability to deliver our bill service to our customers and reduce JGN's operating costs.

2.2 Consequential Damages – Clause 1.1

JGN's changes to this clause mean that users may be liable for types of damages that would ordinarily be excluded as consequential damages where such damages are direct. It is usual for the types of loss listed in this definition to be excluded regardless of whether they are direct or indirect loss. As such, Origin does not agree with these changes.

2.3 Responsibility for Gas – Clause 9.4(b)

JGN states that the user-specific indemnities should relate to matters within the user's control.[39] While we are comfortable with users agreeing to fault-based indemnities, clause 9.4(b) as drafted does not limit the indemnity to gas which has been delivered by a user. Instead the indemnity is given in relation to damages connected with gas prior to the receipt of the gas by JGN or after its delivery.

This clause should be amended to limit the indemnity to gas delivered by and delivered to the user as follows:

> The Service Provider will not be liable for, and the User will indemnify and hold the Service Provider harmless from and against, any and all Damages or claims in connection with anything which may arise with respect to Gas prior to the receipt of Gas <u>from the User</u> by the Service Provider at a Receipt Station or after its delivery <u>to the User</u> at a Delivery Station at a Delivery Point.

2.4 Unaccounted for Gas – Clause 9.5

In our submission to the initial proposal, Origin asked the AER to review JGN's treatment of unaccounted for gas (UAG).[40] Our experience has been that its treatment of UAG is inequitable as JGN is allowed too much discretion in relation to the purchase of UAG.

Clause 9.5 requires JGN to purchase UAG on a competitive commercial basis but ultimately allows JGN discretion to purchase UAG on any day and over any period it chooses. Clause 33 of the RMP

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[38] Ibid, p.16.
[39] JGN, *Response to the AER's Draft Decision & Revised Proposal Appendix 1.5 – Response to the Draft Decision on JGN's Revised RSA,* 27 February 2015, pp. 7-8.
[40] Origin, *Submission to Jemena's Access Arrangement Proposal*, 25 August 2014, pp.19-20.

allocates UAG to each user (known as "user's share of UAG" or SUAG) each day that JGN purchases insufficient UAG on a day. The SUAG contributes towards that user's total allocated withdrawals. This means that should JGN purchase insufficient UAG (or purchase none at all) on a day, the forecasts made in good faith by each user are made inaccurate through no fault of their own. Each user is charged penalties for inaccurate forecasting in the short term trading market (STTM) and these penalties contribute to the cost of supplying gas to the market. As a result, JGN's discretion to purchase UAG whenever it chooses unnecessarily contributes to inefficiencies in supplying gas to the market. Furthermore, there are no obligations under the Reference Service Agreement or the RMP for JGN to repay to users the UAG that has been allocated to them. This has the potential to add further costs and inefficiencies to the market.

These inefficiencies could be readily addressed in the Reference Service Agreement by obliging JGN in the STTM and its country networks to:

- purchase UAG every day;
- use its best endeavours to forecast accurately and purchase its best estimate of UAG required each day; and
- use its best endeavours to return to each user the outstanding accumulated balance of UAG allocated to them (SUAG).

This should not be an issue for JGN because it has informed Origin that, in practice, it purchases UAG on a daily basis and tries to minimise the amount of UAG allocated to each user (SUAG). However, despite JGN's assurances, it is not clear that it is successful at minimising users' STTM penalties and maximising efficiencies in the NSW gas market. As a result, we see this as an issue that should be address in the Access Arrangement.

2.5 Gas Quality – Clause 10.1

Origin supports the AER's draft decision to ensure a user's liability for off-specification gas only applies to gas delivered on behalf of the user. We appreciate JGN's efforts to incorporate this into its revised proposal.

In reviewing JGN's revised proposal, Origin asks the AER to ensure users remain protected for off-specification gas for which they are not responsible and that the process for JGN to recover damages from off-specification gas is equitable. Our concern is that a user could suffer damages as a result of off-specification gas delivered by another user. Users only have a contractual relationship with JGN who in turn has a contractual relationship with the other users in the network. A user cannot control what other users do. As a result, a user is exposed to a risk that it will suffer damage due to another user delivering off-specification gas but the user does not have contractual recourse against the other user for this loss. In addition, under clause 10.1(f)(ii), a user could be liable for damage caused by off-specification gas not delivered by that user as this calculates responsibility based on the proportion of gas each user delivers to a receipt point. As such, this mechanism will not accurately identify which party delivered the off-specification gas and so does not accurately assign responsibility for damages.

2.6 Energisation under National Energy Retail Law – Clause 11.4(c)(ii)

Origin notes JGN accepts the AER's insertion of "that is reasonable". We also accept this insertion but suggest changing the word "may" to "must" as JGN should not retain discretion about the appropriate tariff class for the delivery point. A reasonable tariff class should be the only option.

2.7 New Receipt Points – Clause 14.2(b)

The ability for JGN to publish additional requirements is an additional and unnecessary level of compliance for retailers. Australian and internationally recognised standards and codes (including

AS2885) provide the overarching framework for technical requirements. This clause should explicitly reference these standards and codes in the first instance and also in Annexure 4 of the Reference Service Agreement. We do not consider it necessary to incorporate another publication produced by JGN.

2.8 Load Shedding – Clauses 23.4(d) and (e)

The AER's draft decision removed "sole" and "absolute" from these clauses and added "acting reasonably". JGN's revised proposal accepts the AER's deletions but does not accept the "acting reasonably" addition. We agree with the AER's draft decision and consider "acting reasonably" should be reinstated. Retailers need clarity around JGN's operational decision making for load shedding to ensure efficient market operations for customers.

2.9 Circumstances in which Limitations and Exclusions do not Apply – Clause 26.5(a)

Origin is of the view that clause 26.5(a) needs to be limited to gas delivery by or on behalf of the user. Based on JGN's comments, this appears to be its intention but it is not reflected in the proposed drafting of the clause.[41]

[41] JGN, *Response to the AER's Draft Decision & Revised Proposal Appendix 1.5 – Response to the Draft Decision on JGN's Revised RSA,* 27 February 2015, pp. 32-3.