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19 February 2020

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted via email to: AGNSA2021@aer.gov.au

Dear Mr Roberts,

Re: Draft Decision on Gas Access Arrangement for Australian Gas Network

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to respond to the Australian Energy Regulator's (AER's) draft decision and Australian Gas Network (AGN's) revised gas access arrangement proposal for its South Australian gas network.

Following the AER's draft decision, AGN submitted a revised access arrangement (AA) for the 2021-26 period for approval. We have reviewed the revised AA submission and responded to parts of the AER's draft decision and AGN's revised proposal. Red and Lumo strongly support the revenue reduction proposed by AGN, and the reassurance that consumers will not receive real price increases over the regulatory period.

AGN's consumer engagement in the preparation of its 2021-2026 proposal has been comprehensive, with strong retailer and consumer engagement generally delivering better outcomes for consumers.

This submission focuses on the aspects of the revised AA submission that we do not support. In particular, we remain concerned with the proposed Vulnerable Customer Assistance Program (VCAP). While acknowledging that AGN has undertaken significant work in developing this proposal, in our view customer assistance programs are best administered by those with the customer relationship, namely retailers.

Additionally, we do strongly oppose the introduction of a Gas Network Innovation Scheme (GNIS) that consumers would be required to fund but does not necessarily reflect their preferences or willingness to pay for specific outcomes.

Vulnerable Customer Assistance Program (VCAP)

As was expressed to AGN at the VCAP specific workshop on 4 December Red and Lumo do not support the VCAP. AGN noted that there are two components to delivering on their VCAP proposal, a capex cost which is not clearly articulated in AGN's Attachment 7.2A and their revised AA, alongside an increase of ~\$1.50/customer per annum in opex costs.

We consider that AGN is best placed to deliver assistance to vulnerable and non-vulnerable customers by keeping its costs as low as possible while providing safe and reliable network services. With assistance provided by retailers, alongside that provisioned by the community sector and social welfare provided by the government, vulnerable customers are well supported.

In the provision of essential services, it is important to ensure that vulnerable customers have the ability to seek and obtain assistance and remain connected. Under the existing energy regulatory framework, retailers have the sole obligation to provide support measures such as payment plans, and hardship programs to consumers that are experiencing financial difficulty. Retailers are best placed to provide support that reflects each customers' specific preferences, needs and circumstances because they, unlike networks, maintain a direct and ongoing customer relationship.

In addition to these obligations, the South Australian government also requires retailers to administer the Retailer Energy Productivity Scheme (REPS). The REPS has a specific focus to provide free or discounted energy efficiency and energy productivity activities to residential and small business customers. Further, the scheme places incentives on retailers to target these activities to support vulnerable and low income households.

It is more efficient and effective for retailers, the community sector and governments who maintain relationships with consumers, in particular vulnerable customers to deliver support and services. These are established and well understood arrangements and we see little consumer benefit from changing this framework.

Gas Network Innovation Scheme (GNIS)

Red and Lumo do not support the introduction of the GNIS as it is particularly challenging for distributors to tailor and develop incentive schemes that truly reflect consumers' preferences. The risk is that if these schemes are developed without the significant input required from consumers they may end up benefiting networks more than consumers.

In addition, gas distribution businesses already have regulatory obligations and three incentive mechanisms to undertake innovation. Namely, the efficiency benefit sharing scheme operational

expenditure (EBSS) and capital expenditure (CESS- *growth capex not included) alongside tax incentives for undertaking research and development.

It is not obvious that consumers should be required to pay for an additional innovation scheme given AGN's current performance and the existing mechanisms in place.

Price path

Red and Lumo welcome the marginal revenue reductions that have been proposed by AGN for the 2021-2026 regulatory period. We encourage the AER to translate these revenue proposals into a smooth price transition from one year to the next during the next regulatory period. We have found that customers are more receptive to a smooth price path, rather than a substantial increase in any single year. Sharp price movements between years tend to increase complaints about affordability and provision of less appropriate signals to encourage consumers to consider the profile of their energy use, including investments in distributed energy resources.

AGN's proposal would transfer all of the price cut to the beginning of the new regulatory period for consumers to benefit from it as soon as possible. They also argue the cash flow profile of their business is much better suited to transferring the price reductions to the beginning of the new AA. This allows the business to present to ratings agencies knowing the business is operating within the credit matrix¹ requirements of a BBB+ corporate.

Our own view is the ratings agencies should be indifferent to a price path that transfers all of the price cut to the beginning of the regulatory period or a smooth one that applies all of the price cut more evenly across the regulatory period. In the end, both revenue streams would be Net Present Value (NPV) neutral. This means that in financial terms AGN should be indifferent to either approach.

Mount Barker

Red and Lumo support the delivery of gas to consumers at Mount Barker. The residents of Mount Barker should have the option of reticulated natural gas. AGN has explored the option of extending the network to Mount Barker and determined that the current returns on capital expenditure were too low and as a result did not meet equity holders' cost of capital.

Our understanding of the AER's rate of return process is that it sets the cost of capital to ensure that it would be economically feasible to augment the gas distribution network. Given this it is not clear to us why AGN is not expanding the network to supply gas to Mount Barker. We postulate that perhaps it is the delayed cash flows associated with the project that are the real

¹ Funds from operations (FFO) to debt/ FFO to interest

cause for concern. If this is the case, for the consumers at Mount Barker we encourage the AER and AGN to work together to resolve these matters in order to ensure gas is supplied to Mount Barker.

Terms & Conditions

Red and Lumo have concerns with some of the clauses in AGN's general terms and conditions applicable to the provision of reference services. We provide these comments to the AER in order to ensure that they are more independently considered. We have outlined the specific clauses below.

Clauses 11.1 - Scheduled Meter Readings

AGN have proposed to include the words 'use reasonable endeavours' in the provision of scheduled meter readings in clauses 11.1. It is unclear why AGN would require the addition of a reasonable endeavours caveat, where the obligations to read meters are clearly articulated in the Retail Market Procedures (SA) as published by the Australian Energy Market Operator (AEMO).

Red and Lumo do not support any change to these clauses, as they have flow on effects to customers where AGN does not conduct scheduled meters. Provision of late or delayed reads, outside the 90 day window will result in customers receiving late bills, which may place unnecessary strain on their finances. Additionally, where AGN does not provide reads to retailers, it is likely to make retailers non-compliant with rule 24 of the National Energy Retail Rules (NERR) which requires retailers to issue bills once every 100 days. This is a civil penalty provision, and under the terms and conditions AGN does not take on the liability of retail non-compliances.

Clause 22.3(c) - Time Limit

Red and Lumo do not support the addition of this subclause. Subclause 22.3(a)(i) restricts Network users from making a claim to adjust Distribution Service Charges unless full particulars of that claim are given by the Network User to AGN within three months after the claim becomes known (or should have become known) to the Network User.

Through the inclusion of subclause 22.3(c) AGN clarifies that "should have become known" means "would have become known" had the Network User acted diligently. The addition of this subclause assumes network users (retailers) do not exercise reasonable care or act in a diligent and prudent manner which we do not agree with. We do not support the inclusion of sub-clause 22.3(c), and recommend it be deleted as it creates unnecessary confusion regarding the manner in which clause 22.3(a)(i) should be applied.

Clause 27.2 - Credit support and No refunds

Red and Lumo do not support this clause. While we understand that the change is intended to align AGN's terms and conditions with Victoria, we prefer this existing clause be mirrored into the AGN's terms and conditions for the Victorian and Albury network areas.

Clause 32.2 - Customer Details

Red and Lumo oppose this clause because it gives AGN the unlimited power to obtain any information about a shared customer relating to the operation, maintenance, management or management of the network without any restrictions.

The obligation for retailers to provide the network with information about shared customers currently exists in the National Electricity Retail Rules (NERR) which is reflected in the Retail Market Procedures. There is also an existing transaction that provides this information between the retailer and the network. Should AGN wish to add additional items to the provision of shared customer information, we would prefer that this take place through an AEMO process, not via the AA.

Red and Lumo would be comfortable with the inclusion of a customer details clause in the general terms and conditions of access that specifies that Network Users must provide information to AGN in accordance with the Retail Market Procedures and all other applicable laws. Applicable laws must also include privacy requirements, as this information includes 'Personal Information' for the purposes of the Privacy Act. Otherwise, we do not see that there is a need for any additional contractual obligations to be placed on Network Users to supply this information.

Clause 36(a) - 36(e) Disclosure to associated companies

Red and Lumo consider these clauses are inappropriate. In general, we do not object to the sharing of information between AGN and any of its affiliated companies as long as they do not offer services into a competitive energy market.

In order to eliminate these ring fencing risk we consider clauses 36.7(a)-(e) should be abolished and replaced with the obligation for AGN to:

- manage any dealings with related affiliates on an arm's length basis
- deal with its related affiliates and their competitors, or customers of those competitors, on substantially the same terms and conditions and provide substantially the same quality, reliability and timeliness of service.

- avoid providing information to a related affiliate that AGN has obtained via its dealings with a competitor
- prevent the disclosure of information to an affiliated company's directors, officers, employees or technical advisers etc.

Finally, to the extent AGN is permitted to disclose information to its affiliated companies, this disclosure should be subject to a corresponding obligation to that which applies to related bodies corporate. That is AGN must ensure each affiliate does not disclose the Confidential Information to any person to whom AGN could not make disclosure pursuant to the Agreement.

About Red and Lumo

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland and South Australia and electricity in the ACT to over 1.1 million customers.

Red and Lumo thank the AER for the opportunity to respond to this consultation. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call

[REDACTED]

Yours sincerely

[REDACTED]

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (SA) Pty Ltd