22 August 2016

Mr Craig de Laine
General Manager Regulation
Australian Gas Networks
Level 6, 400 King William Street
Adelaide SA 5000

Dear Mr de Laine

**RE: SUBMISSION TO AGN DRAFT PLAN FOR VICTORIAN GAS DISTRIBUTION NETWORKS**

Origin Energy Electricity Limited (Origin) appreciates the opportunity to provide comments in response to Australian Gas Networks' (AGN) Draft Plan for its natural gas distribution networks in Victorian and Albury for the five year period commencing 1 January 2018.

Origin values the co-operative approach adopted by AGN, most notably through the establishment of its retailer reference group. We consider that the Draft Plan is a worthwhile and constructive initiative which allows stakeholders the opportunity to raise areas of both concern and support ahead of the formal submission of the revised Access Arrangement.

Origin's comments on specific issues are set out below.

*Operating Expenditure*

AGN has proposed a base year roll-forward approach to forecast operating expenditure (opex) over the Access Arrangement period. Under this approach, AGN has adopted actual opex incurred in 2016. As we understand, the 2016 recurrent opex is expected to be under the AER's benchmark allowance. AGN is proposing to absorb the difference between its recurrent and benchmark to provide $8M of additional opex activities over the next Access Arrangement period. As a result, AGN argue that by absorbing these costs in its base it will be able to provide additional activities without an increase in costs to customers.

Origin understands that the AER's approach to determining whether proposed opex meets the opex criteria involves comparing the proposed costs against its alternative estimate. We understand that the AER's alternative estimate is based on

1. actual opex in the base year;
2. trending the base opex forward over the Access Arrangement period to take account of price changes, output and productivity; and
3. adjusting the total opex for step changes i.e. new regulatory obligations.

It is our understanding that under the AER approach, activities not captured in the base opex are treated as step changes and assessed on their individual merits. We understand that the test the AER applies is whether the step change is needed for the total opex forecast to comply with the opex criteria. It is not enough to demonstrate an efficient cost will be incurred for an activity that was not previously undertaken or opex for a particular cost category is expected to rise. As a result, step changes generally relate to a new obligation or some change in a service provider's operating environment beyond its control, such as new legislation or regulations.

For these reasons, our initial view is the additional opex activities should be assessed as step changes consistent with our understanding of the AER's assessment approach.

In terms of marketing, AGN is proposing additional funding of $5M over the Access Arrangement period to undertake a joint marketing program with the other two Victorian gas networks targeted at increasing gas usage. The marketing campaign will target appliance retailers and offer incentives and rebates for the connection of new appliances.

In principle, we support initiatives to promote increases in gas usage. We also recognise that AGN has yet to provide details regarding the specifics of its marketing campaign. We would expect that further information will set out details regarding: 1) the nature and quantum of rebates; 2) the eligibility criteria for rebates; 3) the time horizon for the campaign; 4) distribution of costs and contributions across each of the networks; 5) success measures; and 6) options analysis.

*Capital Expenditure*

AGN has proposed growth capital expenditure of $142M over the Access Arrangement period. We understand this expenditure relates to the cost of new connections including any extension to mains, inlets and meters. AGN is forecasting 14,000 new connections per annum; which equates to a cost of about $2,000 per new connection. We request AGN to provide us with a better understanding of how its proposed new connection expenditure compares with other networks in terms of per unit connection cost and the net present value of the program.

With respect to the proposed IT expenditure, we would also like a better understanding of how the total expenditure has been allocated to respective networks, particularly where shared assets are deployed.

*Tariff Structures*

In principle, Origin supports simple transparent network tariffs so that we can provide transparent bills to our customers. Provided that AGN can demonstrate that there are no material cross-subsidy or equity issues we support a single tariff for residential customers across AGN's network.

*Rate of Return*

Origin supports AGN's adoption of the AER's preferred approach to calculating the cost of debt as well as the application of the AER's cost of equity parameters.

*Terms and Conditions*

Origin has a number of observations regarding the following Terms and Conditions:

- Clause 12.8 – Authorised Conveyance: Under this new clause AGN would incur no liability for any loss, cost or damages in the event that AGN conveys gas that does not comply with the specifications required by the Agreement where AGN believes the conveyance is necessary for the safety of the public or security of the network. We understand that this new clause reflects the terms of the *Gas Supply (Safety and Network Management) Regulation 2013* (NSW). We believe that the General Terms and Conditions need to make explicit what legislative obligations apply to AGN in both NSW and Victoria.

- Clause 22.3 – Adjustment of Charges: Under this amended clause, a Network User may not make any claim for an adjustment to distribution charges unless full particulars are provided to AGN within 3 months after the claim becomes known or should become known or in any event more than eleven months after the relevant statement of charges. Origin considers that the time limits for liabilities between the Terms and Conditions and relevant Rules and Codes should align. Specifically, if a retailer's exposure to a billing re-adjustment extends beyond 11 months and this re-adjustment is attributable to the network, we believe a Retailer should not be limited form recovering its exposure. Furthermore, we request greater clarity regarding how the term 'should become known' is defined'.
- Clause 34.7 – Insurance: Origin seeks clarification why this clause has been amended to remove ownership of insurance from AGN and to transfer this risk to the Network User. We believe clause 34.7 should be retained.
- Clause 39.3 – Assignment. Origin considers that with respect to assignment the same provision should apply to both AGN and a Network User. Notably that the prospective AGN assignee is bound, from the time of the assignment, by the agreement between AGN and a Network User as if the assignee stood in the shoes of AGN.

*Closing*

We are encouraged by the approach taken by AGN to developing its revised Access Arrangements for its Victorian gas distribution network and look forward to continued and more detailed discussions as this process progresses.

If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 9507 0620.

Yours sincerely

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