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Via email

Craig de Laine (General Manager Regulation)
Australian Gas Networks
Level 6, 400 King William St
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Dear Craig

Australian Gas Networks draft plan – Jemena submission

Jemena Gas Networks (**JGN**) welcomes the opportunity to comment on the Australian Gas Networks' (**AGN**) draft plan. JGN is the owner and operator of the NSW Gas Network that delivers gas to over 1.2 million homes and businesses and therefore has many similarities to AGN's Victoria and Albury networks.

JGN undertook its price reset for its 2015-16 to 2019-20 access arrangement with an initial proposal to the Australian Energy Regulator (**AER**) in June 2014. We received our final decision from the AER on 3 June 2015. We make this submission to support positive regulatory development and processes, which is ultimately in customers' long-term interests. We also support AGN's messages on the characteristics of gas, which is a key differentiator between gas distributors and electricity distributors when the AER considers how it applies its regulatory discretion when making its decisions.

We have targeted our submission on five key areas:

- the characteristics of gas as a fuel of choice
- the importance of flexible depreciation
- customers would benefit from AGN proving price impacts by customer cohort
- opex output growth factor
- environmental benefits of gas.

Gas as a fuel of choice – implications for AGN's proposal

AGN note that gas is a fuel of choice in Victoria with declining average consumption driven in part by customers switching to electric appliances (for example, switching from gas heating to reverse cycle air conditioning). As such, JGN considers that is important that the AER give appropriate consideration to AGN's:

- marketing operating expenditure proposal—marketing can help AGN drive new customers to the network and retain existing customers, ultimately putting downward pressure on network prices
- cross price elasticity estimate—which seeks to reflect the impact on demand forecasts of customers moving to electric alternatives
- price cap form of regulation—which promotes an incentive to grow utilisation of the gas network, which is in customers' long-term interests because it also puts downward pressure on network prices.

Flexible depreciation

Customers' long-term interests are promoted when businesses are incentivised to invest efficiently when providing value for money services. In our view, efficient investment can only occur when a business has a reasonable chance of recovering its costs, financing its debts, and earning a fair return.

With the changing role of distribution networks, the regulatory rules need to be flexible enough to ensure that businesses continue to have this reasonable opportunity going forward. Flexible depreciation rules provide options to afford a business a reasonable chance of recovering their capital costs, by aligning cost recovery with expected asset utilisation. We therefore support a considered assessment of AGN's flexible depreciation proposal to ensure that the AER's decision promotes long-term efficient investment in gas infrastructure (both in Victoria, and elsewhere).

Price impacts by customer cohort

Similar to AGN, JGN has undertaken substantial stakeholder consultation, which informed our initial proposal to the AER in June 2014.

We found customers had strong interest in safety and reliability, but were also keen to understand what the plan meant for their bills. We note that AGN has provided a headline figure of an 11% cut in prices on 1 January 2018. We found that customers are aware that they are not homogenous and valued understanding price breakdowns by individual cohort (residential, commercial and industrial). We think there would be value in providing price impacts broken down by these cohorts as part of AGN's 1 January 2017 proposal.

Opex output growth factor

AGN has adopted an output growth factor based on net customer numbers. This differs to the approach adopted by JGN for its 2015-16 to 2019-20 access arrangement, and by the AER in its recent determination for ActewAGL Distribution, which both use forecast customer numbers and throughput to calculate an output growth factor.

JGN is aware of the recent analysis by ACIL Allen, and cited by AGN, which indicates that throughput is no longer a key driver of operating expenditure for gas distribution businesses.[1]

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[1] ACIL Allen, *productivity Study: ActewAGL Distribution Gas Network',* 29 April 2015

AGN has asked stakeholders whether any output growth factor that is developed for gas distribution should be subject to industry-wide consultation before it is introduced. While JGN would participate in an industry-wide consultation process on the estimation of output growth factors for gas distribution businesses, we note that the AER has limited discretion in relation to operating expenditure (NGR rule 91).

Environmental benefits of gas

While the AER does not need to explicitly consider the environmental benefits of gas when making its revenue determination, it is important to understand the operating context for the Australian gas industry. In short, there is continued pressure on the gas industry to promote the long-term benefits of gas as an environmentally-friendly fuel of choice. This in turn drives the industry to remain committed to innovation and cost-effectiveness to maintain and strengthen the gas "brand", both with customers, but also policy-makers.

The environmental competitiveness of gas is likely to come under increasing focus given the COP21 summit in 2015 agreed to ambitious new international greenhouse gas emission reduction targets that will be reflected in Australia's longer-term climate policy from 2017 and beyond. Given the strong ambition of the international commitments, policy-makers, in designing their long-term climate policies, will increasingly be contemplating how carbon neutral energy systems are potentially achieved in a few decades from now.

JGN notes AGN's emphasis that natural gas remains a highly cost-effective and clean domestic fuel compared to electricity. JGN supports providing customers with clear messages on the benefits of gas in the Australian context. This enables them to make a balanced decision based on a range of factors that best suit their needs, which may include running costs, upfront costs, comfort, lifestyle and reducing greenhouse gas emissions.

It terms of its environmental benefits, JGN considers that gas makes sense to help meet Australia's commitments at least cost. This is by natural gas:

- not just having low carbon emissions, but also from emitting fewer particulates than other fuels

- playing a strong role in meeting Australia's 2030 emissions reduction target at least cost (independent analysis confirms that there are significant annual cost savings for most NSW families who use gas appliances of up to $250 per year)

- companies like JGN and AGN exploring new technologies to ensure our gas infrastructure continues to support a clean energy future over the longer term.

If you wish to discuss our submission, please contact Chris Stewart on 02 9867 7000 or at christopher.stewart@jemena.com.au.

Yours sincerely

Cameron Herbert
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Jemena Limited