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Via email: Jai.mcdermott@ue.com.au

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Dear Jai,

Incentive mechanisms for the Victorian Gas Distribution Businesses – Jemena submission on issues paper

Jemena welcomes the opportunity to comment on the issues paper on incentive mechanisms for the Victorian gas distribution businesses.

Jemena Gas Networks (**JGN**) delivers gas to over 1.3 million homes, businesses and industrial customers in New South Wales. While not directly impacted by incentive mechanisms applied to Victorian gas businesses, any changes to the regulatory framework adopted by the Australian Energy Regulator (**AER**) for the Victorian gas businesses may set a precedent for future Access Arrangement reviews. Accordingly, we have a strong interest in the issues paper, and the introduction of new incentive mechanisms into the gas regulatory framework.

It is encouraging that the Victorian gas distribution businesses are thinking about incentive mechanisms to promote efficiency for the long-term interests of customers with respect to price, quality, safety and reliability of gas distribution services.

The AER recently approved the introduction of an Efficiency Benefits Sharing Scheme (**EBSS**) for operating expenditure for JGN's 2015-20 Access Arrangement period. Prior to proposing the EBSS, we discussed the intent of the scheme with our Customer Council, and confirmed that it supported the application of the EBSS to JGN's operating expenditure. We consider that the EBSS is consistent with the revenue and pricing principles because it encourages efficient investment in operating expenditure programs, while providing JGN with a reasonable opportunity to recover at least its efficient operating costs.

We support the introduction of incentive schemes to the regulatory framework where it is consistent with the revenue and pricing principles and in the long term interests of customers. We remain open to the prospect of proposing additional incentive schemes for capital expenditure, service performance and innovation in future Access Arrangement reviews.

We believe that any assessment of incentives schemes aimed at improving or maintaining service performance should be informed by the value customers place on the service attribute that is being incentivised. As this is likely to vary between distribution businesses, we expect that the design and application of such incentive schemes may also vary between distribution businesses. We agree that customer feedback is a key input into decisions on whether introducing a customer service incentive scheme would be beneficial in promoting the National Gas Objective.

We await with interest the outcomes of the Victorian gas distribution price reviews and proposals by the businesses to implement new incentives schemes.

Yours faithfully



Cameron Herbert
General Manager Regulation (Acting)
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