16 August 2016

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

Via Email: haveyoursay@agnl.com.au

ENA comments on AGN's Draft Plan – A five-year plan for Victorian and Albury natural gas distribution networks

Dear Mr de Laine,

The Energy Networks Association (ENA) welcomes the opportunity to provide its comments in relation to the Australian Gas Networks' (AGN) Draft Plan for its Victorian and Albury natural gas distribution networks.

The Draft Plan outlines AGN's pricing proposal for its natural gas distribution networks for the five-year period from 2018 onwards. AGN is required to submit its access arrangement proposal to the Australian Energy Regulator (AER) by 1 January 2017.

This Draft Plan represents a part of AGN's stakeholder engagement program. Its purpose is to ensure that stakeholders and customers have the opportunity to provide input into the development of AGN's access arrangement proposal. The Draft Plan was developed following previous consumer engagement activities, including public forums and meetings with AGN's Reference Groups.

The ENA strongly supports the enhanced customer engagement with networks. It is important that network firms and their customers engage deeply and that the priorities and preferences of consumers, and the long-term interests of consumers, are reflected in future regulatory proposals and determinations. The ENA has recently released the Customer Engagement Handbook that provides practical advice to energy network businesses on customer engagement approaches and methods.[1]

In its Draft Plan, AGN proposes an upfront reduction in distribution prices of 11 per cent (before inflation), with prices lower on average in real terms over the next access arrangement period when compared to the current period.[2] This price cut reflects forecast lower costs from 2018 relative to costs currently incurred. Despite forecast cuts in expenditure, AGN is planning to deliver improvements in safety performance and to maintain current levels of high reliability.

This is good news for Victoria's households and small businesses who rely on gas for cost-effective and convenient hot water heating, space heating and cooking.

The Draft Plan also proposes a suite of tools to improve and strengthen the incentives for the business to pursue prudent and efficient expenditure and provide incentives to make ongoing improvements in customer service.[3] The proposed incentive arrangements are informed by the incentive arrangements that currently apply to electricity distribution businesses in the National Electricity Market. Given that the existing incentive arrangements for gas businesses lack both a service incentive mechanism and a Capital Expenditure Sharing Scheme (CESS) that currently apply in electricity; the ENA considers that there is a clear opportunity to promote the long-term interests of gas customers by improving the existing incentive arrangements in gas. The AER

---

[1] http://www.ena.asn.au/customer-engagement-handbook
[2] AGN, Draft Plan for its Victorian and Albury natural gas distribution networks, July 2016, p.5.
[3] AGN, Draft Plan for its Victorian and Albury natural gas distribution networks, July 2016, p.15.

undertook significant industry consultation through its Better Regulation program in 2013 and it would seem appropriate to adopt common approaches for gas and electricity.

As such, the ENA is a strong supporter of incentive-based mechanisms which promote continuous, effective and stable financial incentives for efficient expenditure. The ENA welcomes AGN's commitment to work constructively with the AER in relation to the specific design of any incentive schemes that are to apply over the next access arrangement period.

AGN's Draft Plan also raises an important issue of financeability. The ENA agrees with AGN that it is appropriate under National Gas Rules for the AER to consider whether the revenues available to businesses are sufficient to maintain financeability and to meet the credit ratios required of the ratings agencies at the benchmark credit rating.

AGN notes that its plan provides sufficient cash flow to maintain the credit rating assumed in setting the cost of debt. This outcome is in part aided by the accelerated depreciation of the remaining low pressure mains that are included in the capital base, but are expected to be replaced by the end of the next access arrangement period. Leaving the issue of financeability aside, the ENA considers that such an adjustment is consistent with clause 89 of the *National Gas Rules*. The AGN-proposed approach is also consistent with a number of recent decisions made by the AER.

The most recent example of this is the AER's draft decision for AusNet Services transmission determination for 2017-22 regulatory period[4], where the AER allowed to adjust depreciation on assets expected to be removed from service. In particular, the AER stated:

> *We accept AusNet Services' proposal to accelerate depreciation on assets expected to be removed from service over the 2017–22 regulatory control period by fully depreciating the remaining value over 5 years. We consider this approach is consistent with the nature of these assets no longer being used and provides for a depreciation schedule of their residual values that aligns with the reduced economic life.*

The ENA acknowledges the proactive approach to customer engagement taken by AGN leading into providing its final plan to the AER. The ENA notes recent comments made by AER Board member Ms Cristina Cifuentes at the ENA 2016 Regulation Seminar where she recognised the AGN's stakeholder engagement program as a positive initiative. Ms Cifuentes encouraged initiatives by network businesses that have the potential to deliver more preferable outcomes that reflect input from consumers from the earliest stage and lead to smoother regulatory processes.[5]

If further information is sought on this matter, please contact Garth Crawford, Executive Director, Economic Regulation, on 02 6272 1555.

Yours sincerely,

John Bradley
Chief Executive Officer

---

[4] The requirement is in both the gas and electricity rules to depreciate assets over their economic lives, and to adjust depreciation schedules to reflect changes in the expected economic life of the assets.

[5] A speech at the 2016 Energy Networks Association Regulation Seminar in Brisbane, AER Board member, Cristina Cifuentes, Engagement and energy regulation in a dynamic environment.