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9 May 2013

Mr Jeff Cefai
Director, Energy
Essential Services Commission
Level 2, 35 Spring Street
Melbourne Victoria 3000

By email: energy.submissions@esc.vic.gov.au

Dear Jeff,

ESC's draft decision — UaFG benchmark rates

AGL Energy wishes to provide comment on the Essential Service Commission's draft decision of March 2013 regarding UaFG benchmark rates to apply to Victorian gas distributors for the period 2013–2017.

AGL supports the Commission's draft decision on UaFG benchmarks for PTS and non-PTS gas networks. AGL further endorses the Commission's decision to have the amended UaFG benchmarks apply **prospectively** from 1 July 2013. Any retrospective application back to 1 January 2013 would require significant adjustments to billing and settlement systems throughout the industry and the cost would significantly outweigh any benefits.

AGL wishes to endorse the Commission's concern that, apart from SPAusNet, none of the other gas distributors provided independent analysis and data in support of their claims for new (higher) benchmark rates. Furthermore, in spite of the higher benchmark rates being claimed, there has been no strategy put forward to manage this upward drift. Having said that, AGL is disappointed that SPAusNet is not prepared to share their consultant's report with industry. As AGL noted in its submission of 20 December 2012 to the Commission, UaFG benchmark rates are applied by AEMO to gross up withdrawals in the Victorian Declared Wholesale Gas Market, thereby impacting the aggregate wholesale gas market exposure of retailers to the tune of at least \$12-\$14 million per annum. This is not an insignificant figure and it is not appropriate for distributors to be oblivious to this cost burden on retailers and their customers.

AGL did note that some of the submissions from the distributors were suggesting a weak or questionable nexus between expenditure on mains renewals and its impact on UaFG levels. If that is the view, then a claim for Capex towards mains replacement would surely have to be set aside by the economic regulator. If distributors are of the belief that expenditure on mains renewals has minimal impacts on reported UaFG levels, then it is simply wrong for them to be holding out for Capex funding. Furthermore, it is incumbent on distributors to suggest where alternative investment might provide the better return in terms of a lower UaFG benchmark rate.

AGL does wish to provide comment on a perspective raised by the Commission. The Commission has noted, by way of a reply to submissions by AGL and Origin for international benchmarks to be considered, that external comparisons of UaFG benchmarks are tenuous. The Commission states further that "the retailers have not provided any supporting evidence to suggest the comparisons can be made on a like-with-like basis." We find this response somewhat surprising, given that regulators often engage in benchmark comparisons as this is one effective way of gauging

performance or at least relativities. That is why AGL firmly believes that the Class A and Class B dichotomy is not helpful in comparing across Victorian gas distribution businesses and that we would be better served by moving to a **single** benchmark rate for each distributor.



It is equally unrealistic for the Commission to suggest that retailers have not suggested how we might be able to compare oranges with oranges. We are retailers and are not privy to the sort of details around each distribution network that would allow us to effect meaningful comparisons — we would argue that it is up to the distributors to demonstrate that comparisons with industry benchmarks may not be meaningful or what allowances might have to be made for local factors. Comparison with like entities in the gas distribution business may be somewhat crude but is also an effective starting point for any analysis — we should not be too hasty to discard this.

Should you wish to discuss AGL's perspectives on unaccounted for gas, please contact me on (03) 8633 6239.

Yours sincerely,

George Foley
Manager Gas Market Development