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Australian Energy Market Commission
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AEMC project number GPR0004

Dear Sir/Madam,

Review into the scope of economic regulation applied to covered pipelines - Issues Paper

AGL welcomes the opportunity to make a submission to the AEMC's *Review into the scope of economic regulation applied to covered pipelines, Draft Paper, 27 February 2018* (Draft Paper).

AGL appreciates the extent of the work and analysis conducted by the AEMC in this review to update the economic regulatory framework for covered gas pipelines (Parts 8-12 of the NGR) which has been in place for over 20 years. Aside from these changes, there are significant amendments and additions to the NGL and NGR which are in progress in relation to the Gas Market Reform Package.

Overall, AGL is supportive of the AEMC's recommendations in the Draft Report which includes:

- a new approach to determine which pipeline service should be specified as reference services in a full access arrangement,
- aligning the information provision obligations of non-scheme pipelines under Part 23 of the NGR to light regulation pipelines,
- more efficient tariffs and non-tariff terms and conditions,
- reducing the ability for service providers to exercise market power by removing the discretion provided to service providers to treat extension or expansion as part of a covered pipeline,
- facilitating greater stakeholder engagement in the access arrangement assessment process, and
- improving the dispute resolution process.

In particular, AGL supports the recommendation to clarify that the AER is to have regard to risk sharing arrangements when determining the non-tariff terms and conditions, and the reference tariff variation mechanism. AGL anticipates that this will allow the AER to take account for the potential for regulatory gaming due to information asymmetry. In addition, AGL considers that some standardisation of these non-tariff terms and conditions and reference tariff setting mechanism will reduce regulatory costs over time.

In principle, AGL agrees that commercial arrangements are best managed by negotiation between the service providers and users. However, it is important that regulators and rule makers recognise that in practice, these negotiations are often difficult because of the monopoly power retained by the asset owners, regardless of if they are covered or uncovered under the NGL.

AGL notes that the AEMC has recommended the retention of light regulation. There are only a few transmission and distribution pipelines which are subject to light regulation. While AGL expects little impact on the overall gas market in Australia if light regulation is removed, the draft recommendation to allow for the strength of each form of regulation to become the same or stronger when progressing from Part 23 to light regulation to full regulation is reasonable.



An important fact to note is that while most distribution networks are under full regulation, most transmission pipelines are not covered under the Parts 8-12 of the NGR. Therefore, this review is particularly relevant to distribution networks.

Should you have any questions in relation to this submission, please contact Meng Goh, Senior Manager Regulatory Strategy, at mgoh@agl.com.au or (02) 9921 2221.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux'.

Elizabeth Molyneux
General Manager, Energy Market Regulation