ATCO Gas AUSTRALIA

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24 April 2018

Mr Andrew Pirie
Senior Advisor
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
SYDNEY NSW 2000

*Submitted electronically via Commission's website*

Dear Mr Pirie

**RE: NATIONAL GAS AMENDMENT (CROSS-PERIOD REVENUE SMOOTHING) – REFERENCE CODE: GRC0043**

Thank you for the opportunity to comment on the proposal by Jemena Gas Networks (NSW) (JGN) to change the National Gas Rules (NGR) to allow the recovery of JGN's revenue to be spread over the 2015-20 and 2020 25 access arrangement periods. This letter outlines a submission from ATCO Gas Australia (ATCO Gas), a natural gas distribution business unit of ATCO Group (ATCO), in response to the Commission's consultation paper on the rule change proposal.

**ATCO Gas's understanding of JGN's rule change proposal**

ATCO Gas understands that JGN's rule change proposal is directed at minimising expected price volatility for gas consumers in New South Wales by seeking to smooth the recovery of target distribution revenue across two access periods: 2015-20 and 2020-25. ATCO Gas also understands that the cross-period revenue smoothing is necessary, in JGN's view, because of the significant delay to the finalisation of its 2015-20 access arrangement caused by limited merits review and judicial review processes.

According to JGN, amending the NGR to accommodate its proposed revenue smoothing mechanism, could result in:

- a steady and gradual reduction in JGN's network prices over the next three years of their current regulatory period (annual reductions between 2.2 per cent and 5.4 per cent in real terms), rather than a sharp decrease followed by a sharp increase in network prices; and

- a maximum 12 per cent gap between revenue and cost of service in any one year, as opposed to 27 per cent without smoothing, ensuring that JGN's network prices better reflect their costs, year-on-year.

ATCO Gas also understands that the intended effect of the cross-period smoothing mechanism will involve bringing forward some revenue recovery from the 2020-25 access arrangement period into the 2015-20 access arrangement period.

## Comments on rule change proposal

ATCO Gas supports JGN's proposed rule change as it address a 'one-off' issue related to the delay in the finalisation of JGN's 2015-20 access arrangement due to limited merit review and judicial review processes

However, as a general proposition, ATCO Gas has reservations about the efficacy of cross-period revenue smoothing as a means of minimising 'bill shock' for gas customers.

Ultimately, cross-period revenue smoothing involves either bringing forward or deferring revenue that should be recovered within one access arrangement period. This is inconsistent with the clear expectation in the regulatory framework that gas network businesses should seek to align their required revenue with the forward-looking and efficient cost of providing regulated services during the access arrangement period[1] – if revenue is smoothed as per JGN's proposal, then the business is bringing forward the burden of cost recovery for future services onto current users of the network.

Cross-period revenue smoothing also tends to push network prices out of alignment with the efficient costs of supply, which is not necessarily conducive to promoting the efficient use of natural gas services. Under JGN's proposal, network prices will be below the efficient cost of supply in the later years of JGN's next access arrangement period.

ATCO Gas agrees with JGN's proposal that the resulting rule should have limited application – it should apply only to JGN and allow for smoothing of network revenue and prices across JGN's current (2015-20) and subsequent (2020-25) access arrangement periods. It should also be of limited duration, so that the Australia Energy Regulator's power to make an 'adjustment determination' expires after a defined period (1 March 2019 as proposed by JGN).

ATCO Gas does not support broadening the application of the proposed rule to give the Australia Energy Regulator (or the Economic Regulation Authority in Western Australia) a more general power to make cross-period price and revenue adjustments.

## About ATCO Gas

ATCO Gas owns and maintains two non-regulated gas distribution networks in Albany and Kalgoorlie, together with the largest (Mid-West and South-West) gas distribution network in Western Australia, connecting over 750,000 customers through more than 14,000 km of natural gas pipelines and associated infrastructure. ATCO Gas's Mid-West and South-West gas distribution network is regulated by the Economic Regulation Authority under the National Gas Law and National Gas Rules as applied in Western Australia.

ATCO's other businesses in Australia:

- own and operate two power generation facilities in Australia (a joint-owned facility in Adelaide and a wholly-owned facility in Karratha) with a combined capacity of 266 MW; and

[1] As detailed in NGR 92

- manufacture and deliver permanent and temporary modular building solutions to a diverse group of customers.

ATCO's Australian operations are part of the worldwide ATCO Group with approximately 7,000 employees and assets of $22 billion. ATCO is engaged in pipelines and liquids (natural gas transmission, distribution and infrastructure development, energy storage, and industrial water solutions); electricity (electricity generation, transmission, and distribution); retail energy; and structures and logistics.

If you have any questions or would like to discuss any of these issues further please contact me or Matt Cronin, General Manager Regulation.

Yours sincerely

**Pat Donovan**
**President**