

27 February 2015



Ms Paula Conboy
Chair
Australian Energy Regulator
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Dear Ms Conboy,

Jemena Gas Networks revised 2015-20 access arrangement submission

Jemena Gas Networks is pleased to submit its revised 2015-20 access arrangement (**AA**) submission (**revised submission**) to the Australian Energy Regulator (**AER**) in accordance with the National Gas Rules (**NGR**).

I am very pleased to advise that our revised submission offers our residential customers bill savings over the next 5 years of up to 40 per cent, depending on their gas use. Importantly, these targeted reductions in our network charges will help offset expected rises in wholesale gas prices.

I remain concerned that the AER's draft decision—if reflected in your final decision—would jeopardise the safe and reliable level of service our customers have told us they value. This is because we would not have sufficient funding to prudently invest in and manage the NSW gas distribution network in the long-term interests of our customers.

Our revised submission reflects our view of the minimum funding necessary to provide our customers a safe, reliable and affordable gas service from 1 July 2015. It largely reflects our initial proposal except for adjustments to account for new circumstances and market data which have become available since our initial proposal was prepared and further feedback from our customers.

The NSW energy market is changing

I am concerned that the AER's decision-making has not considered the competitive pressures facing JGN and the commercial incentives this places on us when managing the network and developing our AA proposal.

Our initial proposal clearly explained the NSW energy market conditions that shaped the plan for our network and customer outcomes from 1 July 2015. These market conditions are characterised by rising wholesale gas prices, falling electricity prices, competition from alternative non-traditional energy sources, gas appliance substitution, challenging government policy settings and improving energy efficiency.

These conditions place JGN squarely in a competitive market environment with other fuels that can power NSW homes and businesses. They drive JGN to seek out the lowest sustainable cost solutions in delivering the safe, reliable and affordable service our customers expect.

I do not consider we have the extent of monopoly power that the AER's draft decision asserts. As gas is a fuel of choice, the viability of our business depends upon us aligning our service and price offering to our customers' preferences and long-term interests.

I urge the AER to step back and consider these commercial incentives before seeking to reject our proposed expenditures, demand forecast and price path.

Customer engagement

I welcome the AER's view that we undertook our pre-lodgement engagement in accordance with your guideline. Comprehensive engagement was fundamental to ensuring our proposal reflected customer preferences for a safe, reliable and affordable gas service.

I note that the AER has not undertaken any direct customer engagement as part of the JGN review, which I feel makes it difficult for the AER to assert that its draft decision is preferable to our proposal. It is incumbent on the AER to explain the consequences of its revenue disallowances on future network safety and reliability, and how these consequences are consistent with our customers' stated preferences for the services we provide.

Structure of our revised submission

JGN's revised submission comprises the following documents:

- our response to the draft decision
- a revised AA proposal and revised reference service agreement, that reflects the response to the draft decision
- a revised access arrangement information, which provides the information necessary to understand the revised AA proposal.

JGN's response to the draft decision includes an overview section, which I commend to you as a summary of our concerns with the draft decision and our revised proposal.

Our key JGN subject matter experts have been meeting with your staff regularly since your November 2014 draft decision to further explain our position on areas the draft decision rejected. This enabled us to provide additional information where requested and set out the key elements of, and reasons for, our revised submission. We would like to continue the constructive and regular engagement we have had with your staff over coming months.

I look forward to the opportunity to further discuss our revised submission at the AER-JGN Board meeting next month.

Regards



Paul Adams
Managing Director