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Via online submission

27 March 2018

Submission: Review into the scope of economic regulation applied to covered pipelines

Jemena welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC's**) draft report on the review into the scope of economic regulation applied to covered pipelines (**Draft Report**).

Jemena owns and operates a diverse portfolio of gas, electricity and water transportation assets across eastern and northern Australia, supplying millions of households and business customers with these essential services every day. This submission is made from its position as a major gas transmission and distribution service provider in Australia.

Jemena Gas Networks (**JGN**) distributes natural gas to 1.3 million residential business and industrial sites in Sydney, Newcastle, the Central Coast and Wollongong, as well to customers in more than 20 regional centres across NSW, including the Central West, Central Tablelands, South Western, Southern Tablelands, Riverina and Southern Highlands regions.

JGN is a regulated gas distribution network and therefore has a direct interest in this review.

Jemena also owns the following major gas transmission pipelines:

- the Northern Gas Pipeline (**NGP**) which is currently under development to link Tennant Creek in the Northern Territory to Mount Isa in Queensland;
- the Darling Downs Pipelines (**DDP**) which transport gas from the gas fields in South-East Queensland to the Wallumbilla gas hub, Origin's 630MW Darling Downs Power Station, and to APLNG's export pipeline.
- the Queensland Gas Pipeline (**QGP**) which links the Wallumbilla gas hub to south central Queensland; and
- the Eastern Gas Pipeline (**EGP**) which delivers gas from the Gippsland Basin in Victoria into New South Wales.

Jemena's transmission pipelines are non-scheme pipelines and, except for the NGP, are subject to Part 23 of the National Gas Rules (**NGR**).

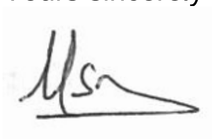
Jemena considers that Part 8-12 of the NGR broadly promotes the National Gas Objective. The gas regulatory framework, particularly as applied to gas distribution networks, has been effective in promoting efficient investment in, and utilisation of, gas pipelines. While we agree that some aspects of the existing framework can be improved, on the whole we do not believe that significant changes are warranted.

A number of recommendations in the Draft Report are directed at addressing stakeholder concerns with gas transmission pipelines. It is not clear that applying all of these recommendations to gas distribution networks is in the long term interests of consumers. We believe that further work is required to ensure that benefits of any proposed changes are appropriately balanced against the costs.

We have reviewed the Draft Report and would like take this opportunity to respond to a number of the recommendations. Our comments are included in the table on the following page.

Please feel free to contact Ana Dijanosic on 02 9867 7103 if you have any questions in relation to our submission.

Yours sincerely



Usman Saadat
General Manager Regulation

Comments on coverage tests	Jemena cautions against suggestions in the Draft Report that there may be benefit in making changes to the coverage test. Indeed, as the AEMC notes, 'evidence of a problem in practice is limited.'[1] Given the extensive number of reviews into the gas pipeline sector in recent years and the ensuing significant reforms that have been, and continue to be, implemented, it is essential that sufficient time is allowed for the reforms to take effect before further examination of the coverage test is undertaken. Importantly, it was only in December 2016 that Dr Vertigan recommended that the coverage test be retained in its current form.[2] Jemena has made numerous submissions on the various industry reviews and reforms over recent years, including Dr Vertigan's review.[3] While the Draft Report suggests that the introduction of Part 23 may have had the inadvertent effect of making the coverage determination harder to satisfy,[4] no evidence to substantiate this statement is presented. We strongly suggest that it is important to allow the suite of Gas Market Reforms to be fully implemented and take effect before their effectiveness, and impacts on the gas market, is assessed.
Light regulation	Jemena supports the AEMC's recommendation that an amended form of light regulation be retained, and that certain aspects of the access regime for non-scheme pipelines (Part 23) be implemented in the light regulation regime. We believe that light regulation plays an important role in the regulatory framework, and that it is necessary to retain a spectrum of regulatory options which may be applied to pipelines satisfying the coverage test, to ensure that an appropriate balance can be struck between the cost of regulation and the benefits derived. We also agree with the recommendations that will 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.[5]
Draft recommendation 4: clarify requirements for defining pipeline services	Jemena supports the requirement for access arrangement proposals to contain a full list of available pipeline services to assist users (and prospective users) negotiating access to a pipeline. However, we believe that it is unnecessary to extend this requirement to 'potential' pipeline services. It is not clear what additional benefit is to be gained from reporting 'potential' pipeline services, particularly in cases where there may be limited or no demand for the 'potential service' or if it cannot be offered. We do not believe that the requirement to provide a list of 'potential' pipeline services

[1] AEMC, Review into the scope of economic regulation applied to covered pipelines, Draft report, 27 February 2018, page 48
[2] Dr Vertigan, *Examination of the current test for the regulation of gas pipelines,* 14 December 2016
[3] Jemena response to gas pipeline coverage test consultation, 16 October 2016 (available on the COAG Energy Council website)
[4] AEMC, Review into the scope of economic regulation applied to covered pipelines, Draft report, 27 February 2018, page 40
[5] AEMC, Review into the scope of economic regulation applied to covered pipelines, Draft report, 27 February 2018, page 51

	appropriately balances the trade-off between the administrative time and effort to prepare and maintain that list, and the benefits that a user might obtain from that list.
Recommendation 7: Introduce a reference service setting process	While we acknowledge that there may be value in applying a reference service setting process to transmission pipelines, we do not see significant benefit in applying such a process to gas distribution networks. As we noted in our initial submission to the AEMC's Issues Paper, we do not believe that it is necessary to add in a new stage to the gas distribution access arrangement review process (similar, albeit more narrow in scope, to that applied in electricity regulatory reviews) because the classification of services in the electricity framework and approach is significantly more straight-forward for gas distribution networks. Gas distribution networks provide fewer services than electricity distribution networks, many of which are far less likely to become contestable. We have included additional discussion on this recommendation below, in the context of the need to ensure transitional arrangements are put in place should this reference setting process be applied to gas distribution pipelines.
Recommendation 11: Extend the revision period to amend Rule 59(3) of the NGR to extend the revision period from at least 15 business days to at least 30 business days.	We support extending the revision period in Rule 59(3). We do not consider that 15 days provides businesses with sufficient time to re-engage with their customers on relevant matters arising from the draft access arrangement decision. We would welcome an extension of Rule 59(3) to 30 days, but consider than a more appropriate length of period to facilitate this process would be 45 business days. This would provide businesses with a more realistic timeframe in which to consult with customers, respond to the draft decision, prepare revised access arrangement documentation, and apply internal governance processes.
Recommendation 22 Require distribution pipeline service providers to disclose capacity and usage information	Jemena agrees that appropriate transparency and availability of information is required to ensure that users can negotiate access to a pipeline, and to enable effective regulatory decision making. However, we consider that the current rules and regulatory framework are sufficient in achieving this objective, particularly as they apply to gas distribution pipelines. The Draft Report does not identify what issues currently exist for users seeking access to gas distribution pipelines, and it is unclear what benefit would be derived from these new reporting obligations. The AEMC notes that adopting Rule 553 of Part 23 of the NGR disclosure requirements for distribution pipelines delivers a proportionate and least cost approach to the disclosure of capacity and usage information. We do not agree with this assessment—we are concerned that compliance with these requirements will result in additional cost and effort with little benefit to users of JGN's network and end consumers.

	Additionally, we note that a number of the obligations in Rule 553 are more applicable to gas transmission pipelines, and their direct application to gas distribution networks would be problematic. For example, obligations under Rule 553(4)(c)-(e) are not relevant, as JGN does not control scheduling of gas into its network. Additionally, Rule 553(4) requires pipeline operators to publish on a monthly basis a range of service usage information, including the quantity of natural gas metered as having been withdrawn from the pipeline during the month. As JGN's volume market customers are metered on a three monthly metering cycle, we believe that monthly reporting of this information would be of limited accuracy due to level of estimation required. Should distribution pipeline service providers be required to disclose capacity and usage information, we consider that they should be designed to ensure that the information is both relevant and useful to users (and prospective users) of that pipeline. Additionally, before implementing any new reporting obligations, a clear case should be made to demonstrate that the benefits associated with publication of this information outweigh the costs to comply with the obligation. Should this obligation be imposed on distribution pipelines, more detailed guidance, in the form of a reporting guideline may be beneficial in removing ambiguity in relation to the reporting requirements.
Transitional issues	The AEMC notes that its final report, to be published in June 2018, will contain drafting of recommended changes to the NGR, and it encourages stakeholders to comment on potential implementation issues related to the recommendations. The timetable for implementing the Rule changes is of particular importance for JGN, as it prepares for its upcoming 2020-25 Access Arrangement review—JGN is due to submit its 2020-25 Access Arrangement submission to the AER in June 2019. We have already commenced preparations for the review, including our customer and stakeholder engagement program. We consider that transitional arrangements are necessary to ensure that JGN is not unfairly impacted by the rule changes, which are unlikely to be implemented before late 2018. Importantly, we believe that some of the more significant rule changes, particularly changes to the definition of pipeline services and reference services, should not apply to JGN until its 2025-30 Access Arrangement review. Any late changes to the classification of JGN's services are likely to detrimentally impact our ability to meaningfully engage with our customers and relevant stakeholders as we develop our 2020-25 Access Arrangement submission.

	We consider it essential that JGN is provided with sufficient time to build its Access Arrangement submission around its reference services, and to engage with our customers and key stakeholders in its development. Additionally, we are concerned that JGN would have only limited time to scope and implement any necessary process or system changes to comply with the new requirements ahead of submitting our 2020-25 Access Arrangement submission. In relation to the introduction of a reference setting process to determine the reference services in advance of the Access Arrangement submission (recommendation 7), the AEMC notes that this process could commence 24 months prior to the expiry of the current Access Arrangement. Given that the AEMC's final report is not due to be published until June 2018, it is unlikely that any rule changes would to be finalised and implemented before the end of 2018. This means that the reference setting process would have to compressed into an 18 month timeframe (at most), which we believe is insufficient, particularly given that this would be the first application of the new rules to JGN. Jemena acknowledges that there is benefit in upfront engagement with the AER on the reference service services offered, and non-tariff terms and conditions relevant to each reference service. To this effect, we intend to engage with the AER throughout the course of 2018 on JGN's service offerings, and any proposed new or modifications to existing services.