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24 February 2015

Allgas Energy Application
National Competition Council
GPO Box 250
Melbourne VIC 3001

By email: gas@ncc.gov.au

Re: Application for Light Regulation Determination: Allgas Distribution Network

AGL Energy Ltd (AGL) notes that Allgas Energy (Allgas) has applied to the National Competition Council (NCC) for light regulation of its covered Queensland gas distribution network (Allgas Network) which distributes gas in the Brisbane Region (suburbs south of the Brisbane River), South Coast region (from northern NSW to the Gold Coast) and Western Region (Toowoomba and Oakey).

AGL is a significant retailer and generator of energy with around 3.8 million electricity and gas customers and over 10,000 MW of generation located in Queensland, New South Wales, South Australia and Victoria. This includes being a significant gas retailer that utilises the Allgas Network.

AGL recognises that the NCC must assess this application against criteria within the National Gas Law (NGL) and National Gas Rules (NGR), including the National Gas Objective to promote efficient investment in, and efficient operation and use of, natural gas services for the long-term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.

AGL is a strong advocate for the deregulation of energy markets and therefore concurs with Allgas that light regulation has theoretical merit given the incentives for it to optimise the utilisation of its gas network. Furthermore, given the NCC's recent decision that Envestra's Queensland Gas Distribution Network should operate under light regulation and the clear similarities between the two networks and their operating environments, it would be unreasonable to reject the Allgas application.

In conceding this, AGL would like to submit that it retains many concerns regarding a light regulation decision.

1. The gas distribution network is a monopoly and overstates the countervailing and bargaining power of users and end-users as:
   - a retailer is required to utilise a network in the short to medium term so has limited negotiation power; and
   - the regulatory framework for network cost pass through means that retailers have no commercial incentive for long and costly negotiations.

2. Overestimate the influence of fuel substitution in the short to medium term;
   - Current network charges and well above efficient levels but there has been little substitution away from gas to date ; and
   - this suggests that residential elasticity of gas demand is low and while the threat of fuel substitution may constrain further price increases it is unlikely to drive network price reductions to efficient levels.

3. Underestimate the likelihood of disputes and therefore the cost of arbitration under light regulation;
   - The only bargaining power that users and end-users will have is the ability to raise disputes through to AER arbitration so it is likely this process will be required; and
   - arbitration is not a costless exercise and disputes will require additional time, money and resources from Users and end-users;

AGL would hope that light regulation of the Queensland gas distribution networks can be effective but is not as confident as the NCC of this outcome. Instead, we are concerned that light regulation will be costly, not as effective as full regulation and not in the long-term interest of Queensland gas consumers.

If you have any queries, please contact me on (03) 8633 6207 or Patrick Whish-Wilson on (07) 3403 2426.

Yours sincerely

[redacted]

Elizabeth Molyneux
Head of Structured Pricing