



20 October 2014

QGDN Application
National Competition Council
GPO Box 250
Melbourne VIC 3001

Submitted in hard copy and by email: gas@ncc.gov.au

DRAFT DECISION ON THE LIGHT REGULATION OF ENVESTRA'S QUEENSLAND GAS DISTRIBUTION NETWORK

Origin Energy Limited (Origin) welcomes the opportunity to comment on the National Competition Council's (NCC's) Draft Decision in relation to Envestra's application for light regulation of its Queensland Gas Distribution Network (QGDN).

We note the NCC's draft decision to make a determination that the services provided by the QGDN be light regulation services on the basis that it considers light regulation is similarly effective as full regulation but involves lower costs. Origin is concerned that absent the regulatory oversight and full consultative process provided by full regulation to determine terms and conditions of access to this monopoly service, there is a potential for prices on the QGDN to rise and non-price terms and conditions to become more onerous for users particularly in the medium to long term.

Envestra's application detailed its expectation that under light regulation there would be an initial price reduction and that prices will not increase by more than the Consumer Price Index (CPI) over the next five years. It will also continue to rely on similar methodologies to set prices under light regulation as it currently applies for full regulation. Origin notes that in the 2011-16 Access Arrangement for the QGDN, the final approved Weighted Average Cost of Capital (WACC) was 10.28%.¹ In comparison, the most recent assessment of the WACC for a distribution business by the Australian Energy Regulator (AER) found the reasonable range for a vanilla WACC was between 7.6% and 8.1%.² Given the downwards adjustment in the approved rate of return for network entities, we would expect Envestra to maintain its commitment to an initial price reduction followed by price increases of no more than CPI.

Envestra's application explained its intention to apply the most recent terms and conditions approved by the AER for the QGDN as the basis for access negotiations with users. In its stakeholder presentation, Envestra also noted it is seeking to align terms and conditions across all of its networks.³ Origin welcomes this approach and looks forward to working with Envestra to apply the most recent terms and conditions to the QGDN and align terms and conditions across its networks.

Should you have any questions or wish to discuss further any detail of this submission, please contact Lillian Patterson on lillian.patterson@originenergy.com.au or (02) 9503 5375.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "K. Robertson".

Keith Robertson
Manager, Wholesale and Retail Regulatory Policy

¹ Australian Competition Tribunal 2012, *Queensland Access Arrangement Orders Annexure G*, p. 12

² Australian Energy Regulator 2014, *Transitional Distribution Decision 2014-15*, p. 28

³ Envestra 2014, *Application for Light Regulation of Envestra's Queensland Gas Distribution Network*, Attachment A