



Mr. Con Sagonas
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

25 October 2017

By email: energy.submissions@esc.vic.gov.au

Dear Mr Sagonas

Essential Services Commission – Draft Decision Unaccounted for Gas Benchmarks in Victoria

AGL Energy Limited (AGL) welcomes the opportunity to respond to the Essential Services Commission (ESC) Draft Decision on Unaccounted for Gas (UAFG) Benchmarks for the Victorian Gas Distributors.

AGL is one of Australia's largest integrated energy companies with over 3.7 million retail customers, which include a substantial number of gas customers in each Australian retail gas market. We strongly support an efficient Gas Retail Market that provides value to end customers and the management of a prudent level of UAFG is an important element in managing the long-term interests of Victorian consumers.

AGL notes the process the ESC has taken in establishing the benchmark UAFG levels, using the last three years of actual UAFG data that has been settled as part of the reconciliation process administered by AEMO. AGL understand the ESC decision on using the last three years' worth of data as being most relevant to the setting of the benchmark levels.

AGL understands that this approach focusses on the recent operation of the relevant distribution network, but notes that the ESC has also chosen in one instance to ignore the current data (due to its extreme variance with previous data) and use the data from the previous benchmarking exercise. AGL, also notes the ESC comment on the various management processes used by the Distribution Businesses to monitor and manage UAFG levels on a more immediate basis.

Given that the Victorian Gas Networks have been reporting UAFG levels since 2002, AGL believes that the current process of only reviewing UAFG benchmarks and actual performance every five years is not optimal. To this extent, while the use of three years of settled data generally provides a view of the current trends, there should also be consideration of the long term UAFG trend relative to the three-year period.

AGL understands that a portion of the UAFG levels associated with a gas distribution network are out of the control of the network, but equally, AGL also notes that unexplained excursions from what would be seen as a reasonable level are more within the control of the gas Distribution Businesses.

To this end, AGL would like to see the ESC publish a simple annual report on the settled UAFG levels for each gas distribution business together with the relevant benchmark, and some commentary from the gas distribution businesses on their management processes, relevant activities and the current state of the UAFG levels.

AGL believes that publishing such an annual update ensures the consideration of UAFG will have greater currency for all parties and allow a more regular consideration of both the benchmark and actual performance of the UAFG, as well as prompting discussion between the affected parties.

This is important to retailers, who must ensure that the necessary physical gas is delivered into the distributors networks to meet their customer load and the actual UAFG required, as opposed to the benchmark UAFG which is invoiced. This will help forward planning for gas retailers, particularly noting the more extreme levels of UAFG recently reported.

AGL also notes that the three years in question are not the same three years for each gas distributor due to the delays in settling the year end gas amounts. Therefore, some distributor review periods are more recent than others, which impacts the currency of the data.

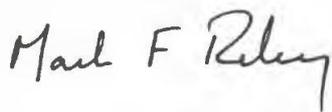
In this respect, the discussion paper indicated that gas distributors have sought the final notice to AEMO be delayed to 30 April the following year, to align with the requirements for AEMO's final settlements and UAFG procedures. AGL considers that the critical date is the initial delivery of the final settled data by gas distributors to retailers.

Noting that under the AEMO procedures, the final settlement for the previous December is 118 business days after December 31 (or approximately July). AGL suggests that, as the gas distributors have the final settled data for previous months well before this, the distributors could deliver the data to retailers for their review prior to the end of the calendar year. We suggest the start of November, 3 months after final settlement, so that retailers can start their review of the data.

AGL believes that it is important to establish an obligation to ensure that this data is delivered to retailers at a reasonable and consistent point in time, to allow their review to commence, not just to ensure the process ends. A scheduled data delivery allows the retailers the ability to plan for the workload and ensure appropriate resources are available to undertake the review.

Should you have any questions in relation to this submission please me

Yours sincerely

A handwritten signature in black ink that reads 'Mark F Riley'.

Mark Riley

**Senior Regulation and Compliance Advisor
Regulation and Ombudsman**