



26 April 2012

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

GRC0012: REFERENCE SERVICE AND REBATEABLE SERVICE DEFINITIONS

Origin Energy Limited (Origin) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) Draft Determination in relation to changes to the definitions of reference service and rebateable service.

Our submission covers two areas:

1. the AEMC's consideration of submissions to the Consultation Paper; and
2. the AEMC's conclusion in its Draft Determination.

The AEMC's Consideration of Submissions to the Consultation Paper

Origin notes that in the Draft Determination, there is only one mention of our earlier submission to the AEMC's Consultation Paper. This is in relation to our comments on the potential level of discretion the Australian Energy Regulator (AER) could have under the proposed Rule.

We note, however, that our earlier submission detailed a number of additional issues that they are not referenced in the Draft Determination. While these issues are unlikely to have changed the AEMC's conclusion, Origin believes acknowledging these issues in the Final Determination is important to maintain a robust and balanced decision-making process. These issues included:

- assessing the full range of potential consequences of the proposed change beyond the AER's intended scope to ensure no unintended applications arise;
- ensuring that any change made maintains the commercial value of Authorised Maximum Daily Quantity Credit Certificates (AMDQ CC); and
- improving the transparency of the AMDQ CC auction process.

It is important that the AEMC give due consideration to all the issues raised by all interested parties in its decision-making process.

The AEMC's Conclusion in its Draft Determination

One of the AER's reasons for proposing this Rule change was to prevent APA Group (APA) from recovering additional revenue above its regulated return from the provision of AMDQ CC in the Victorian Declared Transmission System (DTS). By amending the reference service and rebateable service definitions, the AER intended that it could classify AMDQ CC as a rebateable service in APA's upcoming Access Arrangement. This would have the effect of allowing participants to be rebated for the AMDQ CC they hold.

The AEMC has concluded that APA is rebating participants for AMDQ CC through its annual tariff variation process. Specifically, APA takes into account AMDQ CC volumes when it updates its price control model each year. While the AER acknowledges that this is the case, it has suggested that any rebating that is occurring is on a voluntary basis as the current Access Arrangement does not prescribe the inclusion of AMDQ CC contracted volumes in determining annual tariff variations. In response, the AEMC has commented that it is yet to be convinced that the rebating is occurring on a voluntary basis. It has suggested, however, that if the AER has concerns with the process of rebating through the price control model, then under the National Gas Rules the AER may propose an amendment to APA's proposed reference tariff variation mechanism in the next Access Arrangement review.

The AER is currently reviewing APA's revised Access Arrangement Proposal (Proposal) for the period from 1 January 2013 to 31 December 2017. On 17 April 2012, it released APA's Proposal for public consultation.

Origin encourages the AER to take on board the AEMC's advice to consider the issue of rebating for AMDQ CC through the tariff variation mechanism in its review of APA's Proposal. The differing views of the AER and AEMC as to whether this rebating is occurring voluntarily or not indicates a lack of certainty on this issue. Ensuring that AMDQ CC volumes are included in the annual updates to the price control model would provide clarity of this issue. This would be of benefit to the AER, APA and market participants alike.

The AEMC has explained that the price control model allows for rebating of AMDQ CC volumes as when actual volumes are above forecast volumes in a year, reference tariffs for the injection service will be reduced for the subsequent year. From this, it would appear that any rebating for AMDQ CC is applied equally through a blanket reduction in the reference tariff accessed by all users of the DTS. This appears to occur irrespective of whether a particular user is a holder of AMDQ CC or not. In the context of its review of the tariff variation mechanism, this may be something for the AER to consider.

Further Information

Should you have any questions or would like to discuss this submission further, please contact Hannah Heath (Manager, Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,



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