



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

16 June 2017

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

Dear Mr Sagonas

Review of the Unaccounted for Gas Benchmarks in Victoria

AGL Energy Limited (AGL) welcomes the opportunity to respond to the first stage of the Review of the Unaccounted for Gas (UAFG) Benchmarks in Victoria.

AGL is one of Australia's largest integrated energy companies with over 3.7 million retail customers, we are strong advocates for an efficient Gas Retail Market that provides value to end customers and establishing an efficient and prudent level of UAFG is an important element in managing the long term interests of Victorian consumers.

AGL notes that the Essential Services Commission (ESC) has proposed to use a 'Revealed Cost' approach. The ESC has proposed this approach over a 'Bottom Up' or 'External Comparison' approach on the basis that

'distributors were subject to a profit-maximising incentive structure in previous periods, their actual performance should reflect an efficient level of UAFG which is assumed to be an accurate indicator of an efficient benchmark'.¹

As a result, while AGL accepts that the proposed methodology is a pragmatic approach to the issue, given the varied causes of UAFG, many of which are out of the control of the distribution businesses, AGL notes that in previous periods, distributors failed to complete works that would have reduced their controllable UAFG.

The ESC has noted that the incentive structure may become unreliable if less than optimal investment is undertaken.² As such, AGL would suggest that the ESC's approach takes a longer term view of the Distribution programs to determine not only the more recent mitigating activities, but also the impact of previous activities on the network UAFG actual performance.

¹ ESC, Review of Unaccounted for Gas Benchmarks - Draft Decision – Methodology, 2017, p12

² Ibid, p13



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

or by e-mail:

Yours sincerely

A handwritten signature in black ink that reads "Mark F Riley". The signature is written in a cursive style with a clear, legible font.

Mark Riley

Network Strategy and Regulation Advisor
Network Strategy and Regulation