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Mr Chris Pattas
General Manager
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Australian Competition and Consumer Commission
GPO Box 520
Melbourne VIC 3001

Email: gns@accc.gov.au

26 June 2007

Dear Mr Pattas

Re: GasNet Access Arrangement Revisions 2008

AGL welcomes the opportunity to provide comment on the above consultation. Please be advised that this submission contains no confidential material.

We have not attempted to respond to every issue raised by the Commission in relation to GasNet's access arrangement revision. Our comments are confined to those issues which we as an energy retailer and market participant in the Victorian Gas Market consider critical to our commercial and customer interests.

AGL's detailed comments are annexed to this letter. In summary,

- AGL has concerns with the size of the capital expenditure program proposed by GasNet and with GasNet's ability to complete this program of expenditure. We note that most of the projects have the endorsement of VENCorp through the Annual Planning Review (APR) process. Given GasNet's past patterns of expenditure, the program does seem ambitious. Furthermore, it is a primary driver of the 30% increase in 2008 tariffs.
- AGL welcomes the move towards a simpler injection tariff, one based on winter volumes rather than on 10 peak days as we have at the moment. This will help eliminate residual billing problems that we currently experience with Tariff D customers, owing to the uncertainty of the quantum.
- AGL is comfortable with the proposal to have a single withdrawal tariff for Tariff V customers. Given that the regional/country load is 20% of the total load and given the percentage accounted for by gas transmission in the retail cost structure, this impact on metro customers will be seen as tolerable.

Please contact George Foley on (03) 8633 6239 or 0402 060 781 should you wish to discuss this matter further.

Yours sincerely

Sean Kelly

Sean Kelly
General Manager Energy Regulation

Annexure: Detailed Submission on GasNet's Access Arrangement Revisions

Proposed capital expenditure

AGL has concerns with the size of the capital expenditure program proposed by GasNet and with GasNet's ability to complete this program of expenditure. We note that most of the projects have the endorsement of VENCorp through the Annual Planning Review (APR) process and reflect the age of the PTS as well as the emergence of capacity constraints. Given GasNet's past patterns of expenditure, the program does seem ambitious. Furthermore, it is a primary driver of the 30% increase in 2008 tariffs and hence of concern to retailers.

Total forecast capital expenditure over AA3 is $334.1m. If we deduct the Corio Loop from this, given that it was approved under section 8.16(a) of the Code and the major part of expenditure completed in AA2 with commissioning in early AA3, we are still left with a proposed capex of $270.4m. This represents a significant increase on the expected actual capital expenditure of $70.1m over AA2. The issue is not so much whether the individual projects are justifiable but whether GasNet can adhere to this rather strenuous and ambitious spending program. Where there is failure to meet this program in full, it will mean that retailers and self-contracting end-users would have paid haulage at a rate higher than warranted during AA3, not withstanding that there will be reductions reflected in the starting tariffs for AA4.

Modifications to average revenue yield tariff control

GasNet proposes to modify its average revenue yield control by incorporating weather normalisation, with the intended result that its revenue stream will be less susceptible to weather-related volume risk. The volume risk that GasNet will be exposed to will therefore be related to economic activity. Another feature of the control formula is that it will have upper and lower bounds of 5.5%.

AGL is of the view that this price control formula is probably appropriate for an infrastructure-owning entity, given that the prime rationale for it is to dampen year-to-year price movements from the regulator-approved price path. It would also be somewhat akin, in terms of what it achieves, to the take-or-pay terms associated with contract carriage pipelines which ensure some level of revenue certainty. However, it may well be questioned whether the WACC proposed by GasNet should be discounted to reflect the lower volatility in revenue yield that this revised control mechanism will bring about. It would appear that there is a *prima facie* case for a lower WACC if a significant portion of risk faced by the business is to be removed via the yield control formula.

Single postage stamp tariff for Tariff V

The introduction of single postage stamp tariff for withdrawals by all tariff V users would result in a cross-subsidy from the metro load to the regional/country load. However, given that the regional/country load is 20% of the total load, this impact will be seen as tolerable. Against this diminution in price reflectivity is the prospect that the new tariffing methodology will result in a simpler administration and management of competitive retail price offers by retailers. Given that retailers are not bound to defined geographic markets since the introduction of FRC, this is a move that on balance would be viewed as beneficial by retailers.

Another consequence of the proposal for a postage stamp Tariff V for all Victoria is that the Murray Valley incremental transmission tariff, which presently applies to offtakes on the Murray Valley lateral from Chiltern, will now be absorbed into the general tariff for V customers. AGL can accept this consequence as a result of a move towards a uniform withdrawal tariff .

New injection tariffs

AGL welcomes the move towards a simpler injection tariff, one based on winter volumes rather than on 10 peak days over winter as we have at the moment. Currently the 10 peak winter days, and the magnitude of injections on those days, is not known till October/November each year. A rate that is applied to winter injection volumes, as proposed, will provide greater billing certainty for retailers and customers on pass-through retail tariff arrangements. This will help eliminate residual billing problems that we currently experience with Tariff D customers, owing to the uncertainty of the quantum. This becomes more problematic when customers churn away before the final winter wash-up is completed.

Whilst it may be argued that this move away from pricing on 10 peak winter days results in some loss of the strength of price signals, retailers would feel that the administrative simplicity and billing certainty engendered by this proposal would be beneficial in net terms.

Arrangements at Culcairn

GasNet proposes to allow itself the discretion to regard expansions at Culcairn for withdrawals in excess of the 17TJ per day in AMDQ to be uncovered. AGL gathers that in this event, full contractual rights would vest with retailers/shippers who agree to fund any augmentation or improvement to ensure a flow above 17TJ per day.

To the extent that the Eastern Gas Pipeline provides competition to gas flows north to NSW via Culcairn, it is acceptable for GasNet to propose this arrangement. Of course, the final view on the removal of coverage would depend on the ultimate ownership structures emanating from the sale of Alinta and the divestment of its 35% shareholding in APT.