

Attachment 5-1: Statements and Expert Reports Relied Upon by Envestra

Envestra relies on the following in support of its submission that the payments under the 2007 OMA are efficient costs:

Lay Evidence

- (a) affidavit of Ian Little, Envestra's Managing Director - provides background on the 1997 OMA and the 1999 OMA, describes the transfer of the OMAs to APA in 2007, discusses the operation of the 2007 OMA and discusses the relationship between Envestra and APA. The affidavit is a consolidation of the affidavits sworn by Mr Little for the 2008 ESCV price determination, as supplemented to provide further information in relation to the 2007 OMA (Attachment 5.1);
- (b) affidavit of John Ferguson, General Manager Networks of APA - this outlines the operation of the budgeting and cost monitoring provisions of the 2007 OMA, the processes used by APA to engage subcontractors and outlines the efficiency benefits APA is able to offer Envestra. Attached to this affidavit is the 2007 affidavit of Paul Cooledge, then General Manager of the South Australian division of APA, sworn for the 2008 ESCV price determination and which affidavit also dealt with the operation of the budgeting and cost monitoring provisions of the 2007 OMA (Attachment 5.2);
- (c) affidavit of Mr Peter Cain, Envestra's Company Secretary from 1997 to 2005 – this outlines the structuring of the 1999 OMA - this affidavit was submitted to the Essential Services Commission of Victoria in the 2007-2008 review of Envestra's Access Arrangements for its Victorian and Albury Distribution Systems (Attachment 5.3);

Counterfactual Evidence

- (d) the expert report of Keith Lockey of KPMG "The Cost of Gas Distribution Services When Capabilities are Retained Internally" which compares the costs incurred by Envestra against a hypothetical operator of three gas distribution networks of equivalent size to Envestra's networks and identifies that through its outsourcing Envestra achieves lower costs than would be obtained if Envestra operated its three gas distribution networks itself. Included with the Lockey Report is WorleyParsons report "Envestra Access Arrangement Submission Review of KPMG Report" which assesses the reasonableness of the assumptions underpinning the Lockey report (Attachment 5.4);

Benchmarking Evidence

- (e) the expert report of Katherine Lowe of NERA Economic Consulting "Benchmarking Study of Contractor Profit Margins" which compares the margin payable under the 2007 OMA against comparable industry margins (Attachment 5.5);
- (f) the expert report of Marksman Consulting Services Pty Ltd "Gas Distribution Benchmarking Report Envestra South Australia and Queensland" - this benchmarks the performance of Envestra's South Australian and Queensland networks (Attachment 5.6);

Productivity Evidence

- (g) the expert report of Economic Insights Pty Ltd titled "The Productivity Performance of Envestra's South Australian and Queensland Gas Distribution Systems" - this considers the total factor productivity and partial factor productivity of Envestra's South Australian and Queensland networks (Attachment 5.7).