

5 November 2002

Russell Phillips  
Acting General Manager  
Regulatory Affairs - Gas  
Australian Competition and Consumer Commission  
PO Box 1199  
Dickson ACT 2601

Dear Mr Phillips

### **Moomba-Sydney Pipeline System Access Arrangement**

Thank you for the opportunity to make the attached submissions responding to a number of reports pertaining to the Moomba-Sydney Pipeline System.

Those reports are:

1. Allen Consulting Group (2002), *Empirical Evidence on Proxy Beta Values for Regulated Gas Transmission Activities*. A report prepared for the Commission by the Allen Consulting Group.
  2. ACCC (2002), *EAPL's application for partial revocation of coverage of the Moomba to Sydney Pipeline System*. A submission by the Commission to the NCC in connection with the NCC's consideration of EAPL's application for partial revocation of coverage of the pipeline.
  3. NERA (2002a), *The Hypothetical New Entrant Test in the Context of Assessing The Moomba to Sydney Pipeline Prices*. A report by NERA to the NCC in connection with the NCC's consideration of EAPL's application for partial revocation of coverage of the pipeline.
  4. NERA (2002b), *Depreciation within ODRC Valuations*. A report prepared for the Commission by NERA.
  5. SKM (2002), *Depreciation within ODRC Valuations*. A report prepared for the Commission by SKM.
1. Response by NECG to Allen Consulting Group (2002)

This submission prepared by NECG concludes that "in the light of these facts, one can only conclude that ACG estimates represent an extreme low end of a range of possible beta estimates which is remarkable for its variance". This strongly suggests that Allen's estimates of beta are well less than a representative view of equity betas. Given the

recommendation of the Productivity Commission in their report on the review of the National Access Regime

*"that the access prices:*

*(i) be set so as to generate revenue ..... that is at least sufficient to meet the long -run costs of providing access to these services; and*

*(ii) include a return on investment commensurate with the regulatory and commercial risks involved"*

there is sound reason that the Commission should apply estimated proxy betas which are not reflective of the extremely low estimates presented by Allens, and that they should be sufficiently above the average in the reasonable range as to ensure that the possibility of underestimate is avoided.

## 2. Response by NECG to ACCC (2002)

It appears from your 15 October 2002 letter that the Commission may have misunderstood the reference in my letter to Mr Martin regarding EAPL's desire to comment on the Commission's report to the NCC commenting on a submission by EAPL/NECG also to the NCC. EAPL's concern was that the Commission may take into account the views expressed in the report to the NCC and that it would be appropriate that parties be given the opportunity to comment on those views which have been made public via the NCC's consultation process.

NECG provides further insight to its criticisms in the 11 February submission to the NCC.

## 3. Response by NECG to NERA (2002a)

In September 2002, the ACCC submitted a report it commissioned from NERA, *"The Hypothetical New Entrant Test in the Context of Assessing the Moomba to Sydney Pipeline Prices"*, to the NCC in connection with the issue of revocation of the MSP. The ACCC said in its submission,

*"In making its Final Decision [on the MSP Access Arrangements], the Commission will also consider NECG's submission to the NCC and NERA's report on the HNET."*

Subsequent to those submissions, EAPL asked NECG to respond to NERA's report on the hypothetical new entrant test. To the extent that NERA's report may be considered relevant to the Commission's deliberations on the Access Arrangements, we believe it is important that it be read in conjunction with NECG's critique, which is attached to this letter as a formal submission in the Access Arrangement process.

4. Response by EAPL to NERA (2002b)

NERA's submission considers depreciation in DORC in economic terms. It is EAPL's view that, when some misunderstandings and errors in the NERA report are addressed, NERA's and Agility's approaches will coincide.

5. Response by EAPL to SKM (2002)

EAPL concludes that SKM has arrived at an arbitrary and unsupportable view of the depreciation in DORC.

Should you have any matters for clarification arising from this response please contact Chris Harvey of Agility on 02 9922 8601.

Yours faithfully

Michael McCormack  
**General Manager Commercial**