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Mr Mike Buckley
General Manager
Regulatory Affairs Division - Gas
ACCC
GPO Box 3648
SYDNEY NSW 1044

FILE No:
DOC
MARS/PRISM:

Dear Mr. Buckley,

Re: Submission – Revisions to the GasNet Access Arrangement

EnergyAdvice has reviewed GasNet’s proposed changes to their access arrangement and find the general thrust of the proposed changes reasonable subject to the underlying assumptions and the forecast proving reliable.

However, we do have one observation that we would like to bring to your attention.

Refill Tariff Revision – Change of ownership of Gas while in Underground Storage.

Current Tariff Structure:

The current tariff structure incorporating the Transmission Refill tariff provides an upfront discount withdrawal tariff which contemplates that gas so withdrawn and placed in Underground Storage will be injected into the GasNet system at a later time. The owner of the gas who delivers that gas into Underground Storage, gains the benefit of the discounted withdrawal tariff. Regardless of any ownership change while it is in Underground Storage, a discounted withdrawal tariff has been applied to that gas.

Under GasNet’s proposal, there will no longer be an upfront discounted tariff, but a rebate payable on withdrawal.

Proposed Tariff Structure:

If ownership of the gas changes while it is in Underground Storage, neither the person who withdrew the gas at Underground Storage or the person who injects that gas at Underground Storage, will get the benefit of the rebate. Under such circumstances there is no Refill Tariff applicable and the incentive to use Underground Storage has been negated. Additionally, GasNet has received a windfall by not having had to pay a rebate.

We believe that there is a case for GasNet to provide a system under which transfers of ownership are recognised and recorded by GasNet to preserve the intent and integrity of the Underground Storage Refill Tariff.

Yours sincerely,

R E Gallienne
Director

GASNET ACCESS ARRANGEMENT – APPLICATION FOR REVISIONS

OVERVIEW

GasNet seeks three revisions to their current Access Arrangement.

The revisions are to do with:

- K-factor revision
- Refill tariff revision (Iona)
- Weather pattern revision

Additionally, GasNet has put the point of view on how the ACCC should deal with the proposed revisions and the extent to which, under the Code, the ACCC may examine other matters when coming to a determination.

Following is a summary of the three revisions, the likely impact and their appropriateness.

K-FACTOR REVISION

GasNet introduced new tariffs in 2003, some of which had discounts to deter by-pass of the GasNet system. With eighteen months of actual operation, these tariffs are having an unintended adverse affect on GasNet's revenues, which will provide volatility in the tariff price paths if not amended. Some tariffs could generate over-recovery of revenue one year and under-recovery the next, as over-recovery is recouped in the following year under the current arrangement price control formula.

GasNet predicts they will over-recover in 2004, leading to significant tariff reductions in 2005. Individual tariff price caps (CPI -x +2%) apply in each year, while there is no price floor for tariffs.

GasNet is concerned that if over-recoveries are passed through in the next year and then they have an under-recovery in the subsequent year, that the price cap will limit their ability to recover the full amount with the balance transferred to the new access arrangement. Such a scenario leads to tariff volatility and an artificially set tariff in the succeeding access arrangement.

GasNet proposed that, where there is an over-recovery, that that over-recovery be returned to users over the balance of the access arrangement. i.e. three years to run equals one third of over-recovery per year and two years equals half per year. The GasNet proposition seems reasonable in that they only recover what they are entitled to, minimises tariff volatility and retains the price cap on individual tariff rises.

REFILL TARIFF REVISION

In 2003, GasNet introduced a refill withdrawal tariff for withdrawals into Underground Storage at Iona (and at Dandenong – LNG Storage). The tariff provided an upfront discount for withdrawals into Underground Storage from the GasNet transmission system and which are later withdrawn and returned towards Melbourne. A withdrawal from GasNet into the SEAGas Pipeline attracted a separate withdrawal charge.

The tariff was designed to encourage users to use Underground Storage, as a second source of gas during Winter peak demand..

GasNet had not become aware of a recent new connection between Underground Storage and the SEAGas Pipeline. Some users are taking gas into Underground Storage and out the back door into the SEAGas Pipeline and thereby avoiding the withdrawal charge (about 9c/GJ) applicable to SEAGas Pipeline withdrawals direct from GasNet.

This was not the intention of the tariff design and has caused an anomaly which GasNet now seek to block. GasNet proposes to redesign the tariff under which the user pays the full cost and if that user withdraws gas from Underground Storage on that day or a later day, a rebate equivalent to the current discount applies. This will eliminate the cost advantage of “back dooring” from Underground Storage, which only some users can utilise and will reestablish a level playing field.

The one issue that we believe GasNet has not addressed is a change of ownership of the gas delivered into Underground Storage by one user and being taken out by another user (the new owner). Neither would be eligible for the rebate and therefore GasNet would receive windfall revenue. Under such a scenario, users would not be encouraged to use Underground Storage.

We will provide a brief submission to the ACCC to bring this matter to their attention.

WEATHER PATTERN REVISION

GasNet was concerned in 2002 that a warming trend was occurring in Victoria. If this trend continued, there would be a negative impact on GasNet revenue by utilising weather forecasts which relate to volumes of gas delivered through the GasNet gas transmission system. GasNet has now provided evidence (CSIRO) that the warming trend is ongoing and is likely to reduce gas transmission volumes.

If the volume forecast on which tariff charge levels are based are reduced, GasNet will not receive the level of revenue expected when the current access arrangement was settled.

It should be noted that the ACCC accepted GasNet’s forecasts in 2002 (and not VENCORP’s) and required VENCORP to apply those forecasts to its own access arrangement. The ACCC also stated that GasNet could seek a mid-term revision, which is what GasNet is doing now.

GasNet claims that there is evidence to support “warming trend in Victoria”. The basis for the evidence is a CSIRO report. GasNet is proposing to increase tariffs from 1/1/2005 by 0.65% which equates into an average tariff increase of \$0.002/GJ. The changes sought by GasNet appear to be reasonable and in accordance with principles established by the Access Code and in the spirit of what the access arrangement set out to achieve.