

29 September 2004

Mr Mike Buckley
General Manager
Regulatory Affairs Division-Gas
ACCC, GPO Box 3648
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Email: gasnet@acc.gov.au

Dear Mr Buckley

REVISIONS TO THE GASNET SYSTEM ACCESS ARRANGEMENT

Origin Energy (Origin) welcomes the opportunity to provide the ACCC with comments on the Revisions to the GasNet System Access Arrangement.

Origin is responding to this application based on the understanding¹ that the process for revision to the access arrangement does not allow for the regulator to amend the proposal, nor does it allow for the service provider (GasNet) to vary its proposal.

As a general principle Origin seeks regulatory certainty in order to manage supplier risk effectively in the competitive energy market. While acknowledging that the Gas Code allows the service provider to propose revisions at any time, these revisions should only be supported if there has been a substantive unexpected change to the market environment. There has not been any fundamental change to the gas market circumstances that justifies revisions of this kind to the GasNet Access Arrangement. Origin recognises that the ACCC's final decision to the GasNet System Access Arrangements in 2002 opened the door for a revision to the arrangements due to improved data on weather patterns and the implications for demand forecasts.

K- Factor Revision

GasNet has identified a perceived problem with the price control formula which requires them to return all over recoveries from one year, in the following year through reduced tariffs. However, due to the CPI-X+2% price constraint GasNet is prevented from fully increasing its tariffs in the third year to return back to the allowed price path, which could result in an under recovery being carried forward for some time. GasNet proposes to smooth the repayment of any over recovery over the remaining years of the access arrangement and therefore avoid large variability in transmission tariffs. GasNet makes the comment that this will assist customers.

Origin suggests that this is not an issue that should be considered midway through an access arrangement term simply because known variables such as consumption volumes are likely to be marginally different to the forecast in a particular year. The change in the cap on tariff increases was adjusted from 1% to 2% in the 2002 review to

¹ ACCC website - Implications of voluntary proposed revisions for the review process.

accommodate this problem and any further amendments should be made at the next review in 2007. The vast majority of customers are supplied on standing contracts and do not experience any variability in retail prices as a consequence of movements in transmission tariffs and those larger customers on market contracts, who are subject to pass through of transmission charges would prefer to have any reduction in tariffs passed through as soon as possible. These larger customers have significant transmission costs and are capable of building risks of changes in transmission tariffs into their business decisions as long as transmission companies communicate openly. Therefore GasNet's concern about the effect of large variability in transmission tariffs on customers is misplaced.

Refill Tariff Revision

GasNet introduced a transmission refill tariff for withdrawals of gas from the GasNet network system into the Western Underground Storage (WUGS) facility during the previous review of the access arrangement.

Due to the lower delivery-point pressure of the GasNet system and the higher pressure required by the SEAGas receipt-point, all users must transfer gas either via the WUGS or Minerva Compressors (when operational).

Users do not get a "free ride", as implied by GasNet, when they transfer gas to SEA Gas via WUGS but are subject to commercial rates for injection, storage, withdrawal, losses, compression and use of the laterals. Origin contends that it is not unreasonable for users to be charged a lower rate to encourage the efficient use of available resources.

Origin is concerned that GasNet's proposal to retain \$0.09 per GJ for gas leaving the GasNet system until it is returned from WUGS will incur additional working capital costs on users. Users often store hundreds of terrajoules of gas for several months before withdrawing it. Under the proposed arrangement, GasNet would have the benefit of these funds while the gas is in storage.

Origin is also concerned that GasNet's proposed increased tariff is neither cost reflective nor provides any additional services to users.

Weather Pattern Revision

Origin understands that the 2003-2007 Access Arrangements for GasNet, VENCORP and the distributors were based on a significantly reduced weather standard compared to the first Access Arrangement period (from 1537 Effective Degree Days (EDD) to 1445 EDD). GasNet also proposed that there had been a step-change in the weather and that the 2003-2007 Access Arrangement period should include a warming trend to apply across the 5 years. However, the ACCC did not accept the inclusion of a trend within the second access period and the demand forecasts through the period were based on a constant 1445 EDD assumption.

In 2003 VENCORP conducted a major review of the EDD methodology used to establish the weather standard for the purposes of the Annual Planning Review, leading to significant reductions in annual demand (1.25%) and peak day demand (3.6% for 1 in 2 peak day). This new method calculated weather standards using a moving annual average of EDD over 9 years.

GasNet proposes that this review supports a warming trend shift and requests that this be reflected in annual forecast volumes for the remainder of the second Access period, commencing 2004. In support of this, GasNet claims that the ACCC stated that they "may seek a mid-term revision if further evidence of a warming shift emerged"². Origin's reading of the Final Decision, however, suggests that the ACCC's comments were with

² GasNet's submission page 22, quoting from page 205 of the Final Decision

respect to the need for further substantiation of a warming trend and its impact "in terms of 10 peak days", not the annual demand.

Origin notes that while VENCORP has proposed an average EDD of 1379 (using the previous EDD format) for the purposes of the Annual Planning Review, they did not accept at this point that the evidence substantiated a step-change (as per GasNet's 2002 proposal). VENCORP noted that there has "not necessarily been a step change in the climate in the last 9 years"³. In fact, in this same report VENCORP recommends a straight forward approach where constant EDD standards are applied over a 5 year planning period⁴.

Furthermore, GasNet is now proposing that the step-change/trend line should be included in the assessment of the 2004 year (albeit expressed as an adjustment to the K factor that flows into the 2005 prices). In Origin's view it is inappropriate to apply for a retrospective adjustment where this adjustment is based on a change in one of the principle assumptions in the Access Arrangement.

VENCORP also recommends a review of the proposed 1379 EDD standard in 2005 to identify the nature of the changes in weather. For instance they observe that there are historical cycles of cold and hot weather associated with the drought cycle. Origin therefore suggests that, while GasNet has some basis for seeking a revision, the more appropriate mechanism is to do this in the context of VENCORP's 2005 review. This will allow the amendment to be included as part of a more systematic and thorough review of the weather trends prevailing in this Access period, involving a broad consultation with industry participants. It will also provide a more robust framework to consider the issues of consistency with the VENCORP and distribution Access Arrangement forecasts.

In making their various determinations for the 2003-07 period, the regulators have sought consistency across the industry. Thus, the ACCC sought consistency between VENCORP and GasNet in their forecasts, while the Essential Services Commission made its determination for distributors on the basis of the same EDD forecast. Origin believes the ACCC should be mindful of these previous considerations and ensure that making a change at this time will not have consequential impacts to other regulatory instruments.

Summary

Origin does not support revisions of the GasNet System Access Arrangement as proposed by GasNet. Whilst there is some justification for GasNet to review forecast volumes based on changing weather patterns and previous undertakings by the ACCC, Origin believes that the full extent of the changes to weather patterns will be better understood in 2005 following a further VENCORP review and it would be premature to make any firm changes at this time. Most particularly, we reject the notion of adopting a trend line that includes adjustments to the 2004 demand. Retrospective adjustments to the principles adopted in the Access Arrangement are not acceptable.

Should you require further detail or elaboration in any area of this response please don't hesitate to contact Randall Brown on (03) 9652 5880.

Yours sincerely

Tony Wood
General Manager
Public & Government Affairs

³ VENCORP Review of EDD Weather Standards Response to Submissions, Summary and Final Recommendations, 30 July 2003 page 4.

⁴VENCORP Review of EDD Weather Standards Response to Submissions, Summary and Final Recommendations, 30 July 2003 page 5.