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Mr Michael Walsh
Director
Network Regulation North Branch
Australian Competition and Consumer Commission
GPO Box 3648
Sydney NSW 2001

By email: dvp2007@accc.gov.au

19 March 2007

Dear Mr Walsh

Re: Dawson Valley Pipeline – proposed access arrangement

AGL Sales (Queensland) Pty Limited (***AGL***) thanks you for the opportunity to make submissions on Anglo Coal (***Dawson***) Limited, Anglo Coal (***Dawson Management***) Pty Ltd and Mitsui Moura Investment Pty Ltd's proposed Access Arrangement for the Dawson Valley Pipeline (***DVP***).

On 1 February 2007, AGL purchased Sun Gas Retail (trading as ENERGEX). AGL retails gas in Queensland and Northern New South Wales and purchases natural gas from various producers for delivery into South East Queensland, Central Queensland, North West Queensland and Northern New South Wales. Relevant to the current application, AGL purchases a bundled product which transports gas from the Moura, Mungi and Dawson Valley coal seam gas fields to the QGP.

AGL considers that it is possible that activity in the Moura, Mungi and Dawson Valley coal seam fields will increase over the medium term based on:

- continuing development of the Queensland coal seam gas industry generally and the prospect of further wells being sunk in the Moura, Mungi and Dawson Valley coal seam gas fields specifically;
- the delay of the PNG gas pipeline which had offered an alternative supply of gas to both existing and prospective gas customers; and
- increasing demand for gas in the Queensland market.

As such, the DVP access arrangement may have the potential to impact on further development of these fields as an alternative supply of gas in Queensland.

AGL raises the following matters regarding the proposed Access Arrangement:

Access Arrangement

- The DVP currently has a maximum capacity of 11PJ per annum. In their November 2006 application to the ACCC for waiver of ring-fencing requirements, the owners of the DVP stated that it is currently operating at a significantly lower capacity. Given this current under-utilisation and the proposed 10 year Access Arrangement period, AGL considers that a mechanism should be included in the Access Arrangement which provides for a review of the reference tariff if there is a material increase in use on the DVP.

- AGL notes that the formula adopted in section 4 of the Access Arrangement for increasing the reference tariff appears to have some anomalies. AGL queries the CPI formula adopted and the residual value of the asset base of $8.344 million at the end of the Access Arrangement period.

Access Arrangement Information

- In regard to the Access Arrangement Information, AGL notes that there appears to be some internal inconsistencies in the values used in calculating capital costs. In relation to the post tax nominal cost of equity to be adopted, the AAI states both a rate of 12.74% and 11.74%. Given these inconsistencies review of the proposed post tax WACC of 8.86% is warranted.

Terms and Conditions

- Clause 7 of the standard terms and conditions requires the user to be responsible to control and adjust nominations on the pipeline. Given AGL understands that the DVP does not have flow controls on the pipe, and in particular, at the interconnection of the DVP and Queensland Gas Pipeline, this raises two significant issues:
  - Users may be charged overruns in circumstances where the user is not best placed to manage flows on the pipe; and
  - Allocations between multiple shippers is problematic.

- Variations to nominations are required 48 hours in advance which is substantially longer than the industry 'norm' of 24 hours; and

- If no metering facilities exist, and the parties can not agree on gas quantities, Anglo Coal has discretion to determine the method for calculating gas volumes. AGL considers that this should be by agreement with the user.

If you have any queries or would like further information please do not hesitate to contact Liz Kelleher on 07 3223 1972.

Yours sincerely,

Beth Griggs

Manager Retail Market Regulation