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Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Competition and Consumer Commission
GPO Box 520
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Email: gns@accc.gov.au

17 December 2007

Dear Mr Pattas

Re: GasNet Access Arrangement Revisions 2008 — Draft Decision

AGL welcomes the opportunity to provide comment on the Draft Decision relating to GasNet's access arrangement revisions. As with our earlier response to GasNet's initial revisions, AGL's comments are confined to those issues which we as an energy retailer and market participant in the Victorian Gas Market consider critical to the industry's commercial and customer interests.

AGL's detailed comments are annexed to this letter. In summary,

- AGL welcomes the Commission's review of GasNet's proposed capital expenditure program. In reviewing the spending program, the Commission should be mindful to strike an appropriate balance between the technical requirements of the Code and the structural trends evident in the future pattern of supply to the Victorian gas market. If approvals are concentrated in the area of refurbishment and replacement investment, there is a risk that projects which have the effect of relieving future pipeline congestion (by accommodating new injection sources, particularly in from the Otways) may be delayed, particularly given the frequency with which access arrangements are reviewed. This, in turn, may result in adverse consequences for retailers. As we have seen in Winter 2007, the new Victorian gas market will price congestion sharply whenever constraints begin to "grip".

- AGL is disappointed that the Commission has rejected our arguments in support of a simpler injection tariff, one based on winter volumes rather than on 10 peak days. AGL has argued that the trade-off between price signals and simplicity in administration was acceptable from a retailer's perspective, and was supported by at least one major retailer on this issue. To set aside our perspectives in favour of Code stipulations for cost reflectivity wherever possible seems to depreciate the feedback, based on commercial and practical experience gained in the post-FRC environment, provided by stakeholders through a consultation process such as this.

- AGL is equally disappointed that the Commission has rejected GasNet's proposal for a single withdrawal tariff for Tariff V customers. We still maintain that the dominance of the metropolitan load in Victoria is such that the benefits in moving towards a simpler tariff regime would outweigh any loss in reduced cost reflectivity embedded in price signals.

- AGL supports the Commission's decision to treat revenue from the sale of AMDQ Credits as a forward contribution to Reference Tariff Services. AGL also agrees with the Commission's decision to not claw back revenue (retrospectively) that GasNet may have received in the past and to apply this treatment of revenue from the sale of AMDQ Credit Certificates in a prospective manner.

Please contact George Foley on (03) 8633 6239 should you wish to discuss further any aspect of this submission from AGL.

Yours sincerely

Alex Cruickshank
Manager Wholesale Markets Regulation

Annexure: Detailed Submission on GasNet's AAR Draft Decision

Proposed capital expenditure

AGL welcomes the Commission's review of GasNet's proposed capital expenditure program. The concern we expressed in our earlier submission related to GasNet's capacity to get through such an extensive capital expenditure program. Our focus was on the size of the spend in aggregate rather than on the merits or otherwise of specific projects. Our view was that VENCorp was in a better situation to provide an assessment or view of the merits of each specific augmentation or replacement program.

In reviewing the spending program, the Commission should be mindful to strike an appropriate balance between the technical requirements of the Code and the structural trends evident in the future pattern of supply to the Victorian gas market. If approvals are concentrated in the area of refurbishment and replacement investment, there is a risk that projects which have the effect of relieving future pipeline congestion (by accommodating new injection sources, particularly in from the Otway Basin) may be delayed, particularly given the frequency with which access arrangements are reviewed. This, in turn, may result in adverse consequences for retailers. As we have seen in Winter 2007, the new Victorian gas market will price congestion sharply whenever constraints begin to "grip".

In this regard, it is worth noting that the 2007 Annual Planning Report (APR) just recently released by VENCorp makes the following observations in section 5.2.1 about the South West Pipeline:

> "…pipeline capacity is the overriding constraint for suppliers injecting via the Iona and SEA Gas injection points, with the combined Iona and SEA Gas supplies being significantly larger than the pipeline's capacity."

This statement is made with the Brooklyn-Lara assumed to be in place and operational., expanding pipeline capacity from 220 TJ per day to 307 TJ per day. What this statement highlights is the growing significance of the Otway Basin as a source of gas into Victoria, as witnessed by the exploration and production activity in the region. Apart from Thylacine Geographe and Minerva, which will be coming on line, Santos has recently announced that their Henry project will be viable to take to the production stage and this is expected to happen by Q1 2009. The following passage, taken from the Executive Summary of the same APR report, also refers to the declining absolute and relative reliance on Longford as a source off gas to the Victorian market.

> "Gas supply forecasts indicate that non-firm supply at Longford will decrease substantially in 2010. While firm supply from Iona is forecast to increase from 2009, access to supply from Iona is limited by the transmission capacity of the South West Pipeline."

All of these trends taken together suggest that Stage 2 of the Corio Loop, in the form of a compressor station at Stonehaven, may need to be brought forward. Earlier assessments by the independent planner suggested installation in 2013. We believe that the VENCorp will be undertaking a system-wide Regulatory Test of the Stonehaven Compressor early in 2008 to obtain a more up-to-date picture of the prudent timing for this augmentation. AGL does support this development by the independent gas planner, based on the increasing role that the South West is expected to play in the supply/demand balance for Victoria.

Modifications to average revenue yield tariff control

In its earlier submission, AGL endorsed GasNet's proposal to introduce weather normalization into the average revenue yield control on the grounds that there was little to be gained by an infrastructure owner being subjected to the vagaries of weather, with its attendant consequences for revenue predictability. We did suggest that a trade-off might be a lower WACC in as a result of reduced revenue volatility. We note that the commission's decision to not adjust the WACC on the grounds that "…any prospective risk reduction in terms of reduced losses is equally offset by reduced gains".

Single postage stamp tariff for Tariff V (Proposed Amendment 17)

The commission has responded to AGL's endorsement of the GasNet proposal to implement a uniform Tariff V with the following:

> "The ACCC considers that while a single tariff-V would be simpler as GasNet and AGL maintain, the ACCC notes no evidence that complexity is an undue burden and also notes Origin Energy's observation that changing tariff structures also creates additional costs. Accordingly, the ACCC considers that a single postage stamp tariff for tariff-V customers is not consistent with the requirements of ss. 8.38, 8.42 and 8.1(d) of the code."

AGL is disappointed that the Commission has rejected the proposal for a single withdrawal tariff for Tariff V customers. We still maintain that the dominance of the metropolitan load in Victoria is such that the benefits in moving towards a simpler tariff regime would outweigh any loss in reduced cost reflectivity embedded in price signals. AGL is confident that the new tariffing methodology would result in a simpler administration and management of competitive retail price offers by retailers. As we indicated in our earlier submission, the post-FRC environment in Victoria is one where retailers are no longer limited to confined geographic boundaries. AGL acknowledges that such dynamic benefits may be harder to quantify but maintains that they are nonetheless relevant to any assessment.

New injection tariffs (Proposed Amendment 18)

AGL is disappointed that the Commission has rejected our arguments in support of a simpler injection tariff, one based on winter volumes rather than on 10 peak days. AGL has argued that the trade-off between price signals and simplicity in administration was acceptable from a retailer's perspective, and was supported by at least one major retailer on this issue. Our arguments for simplification rested on the commercially important issue of billing certainty for customers on pass-through tariff arrangements.

Billing based in winter volumes would obviate the need for wash-ups or true-ups that take place when the peak days injections are announced by GasNet in October or November, well after the close of winter. To set aside our perspectives in favour of Code stipulations (s 8.42) for cost reflectivity wherever "technically and commercially reasonable" seems to depreciate the feedback, based on commercial and practical experience gained in the post-FRC environment, provided by stakeholders through a consultation process such as this.

Treatment of revenue from sale of AMDQ credit certificates

AGL supports the Commission's decision to treat revenue from the sale of AMDQ Credits as a forward contribution to Reference Tariff Services. AGL also agrees with the Commission's decision to not claw back revenue (retrospectively) that GasNet may have received in the past and to apply this treatment of revenue from the sale of AMDQ Credit Certificates in a prospective manner.

AMDQ Credits represent pre-paid transmission haulage. AMDQ Credits are assigned only to shippers/retailers, and they are purchased from GasNet. AMDQ Credits relate back to an injection point where a retailer has access to commodity. Effectively they convert a flow-based tariff into a "contract" MDQ to which the Injection Tariff is applied. This does have the effect of introducing elements of take-or-pay. So if a retailer takes out AMDQ Credits for 30 TJ, then there is no refund for an under-run where this MDQ is not fully utilised. Over-runs are charged out at the published and regulated tariffs rather than at penalty rates, as is the case with contract carriage pipelines.

AMDQ Credits are taken out over a negotiated time frame. Whilst they conceptually represent the net present value of x years' worth of pre-paid tariffs, their value may vary depending on the demand situation. To the extent that there is an implied premium, i.e. the purchase price exceeds the net present value of however many years’ of transmission tariffs, AGL would be comfortable with this surplus component being treated as revenue outside the framework of reference tariff services. This would be consistent with the treatment of revenue from other non-reference services.