



13 December 2007

Mr Chris Pattas  
General Manager  
Network Regulation South  
Australian Competition and Consumer Commission  
GPO Box 520  
Melbourne VIC 3001

By e-mail

Dear Mr Pattas

#### DRAFT DECISION - GASNET AUSTRALIA - REVISED ACCESS ARRANGEMENT 2008-12

Origin Energy Retail Limited (Origin) welcomes this opportunity to respond to the Commission's Draft Decision on GasNet's revised access arrangement for the forthcoming access arrangement period (AA3).

In general, Origin supports the suggested amendments to GasNet's access arrangement for AA3 and acknowledges the Commission's task of balancing Code requirements and the form of regulation applying with the legitimate business interests of market participants and other stakeholders of the Principal Transmission System (PTS), including the asset owner.

We set out our response to specific elements of the Draft Decision below.

#### 1. Capital base

##### Roll forward of the capital base

Origin supports the inclusion of the Corio loop augmentation in the capital base for AA3. This augmentation will provide for the growing diversity of injections into the PTS, including projects in the Otway Basin.

##### Non-forecast capital expenditure

Origin supports the Commission's decision to exclude the capitalisation of corporate restructuring costs arising from the acquisition of GasNet by the APA Group. Origin's response to the Commission's Issues Paper dealt with our views on the capitalisation of these costs.<sup>1</sup>

---

<sup>1</sup> Origin response to the ACCC Issues Paper, 9 July 2007, page 8



### Forecast capital expenditure

Origin raised general concerns around the pattern and quantum of proposed capital expenditure for AA3 in its submission on the Commission's Issues Paper. Origin understands that the Commission has assessed the forecast capital expenditure against the requirements of section 8.16 of the Code and has encouraged GasNet to reconsider a number of its proposals under the economic feasibility test.

However, Origin believes the rejection of the proposed Stonehaven compressor under the prudent investment test (and claimed to be supported by the system-wide benefits test) requires further consideration. Given the increase in expected injections from the Otway Basin foreshadowed by GasNet's injection forecasts and the timing of the compressor upgrade itself (2012), Origin would support further analysis (full market benefits test proposed by VENCORP) of this particular element of forecast capital expenditure and believes its inclusion during the forthcoming access arrangement period (subject to the analysis) will satisfy the prudent investment test and the system-wide benefits test.

Origin understands that the approval of such expenditure may occur during AA3 as the Commission has noted on page 60 of the Draft Decision.

## 2. Forecast revenue and revenue elements

### Volumes

Origin supports the revisions made to forecasts of gas-powered generation (GPG) set out on page 142 of the Draft Decision and agrees with ACIL Tasman's analysis that a range of factors are likely to combine to increase electricity generation in Victoria from such sources. It is recognised that there is inherent difficulty involved in estimating the volume of gas required by GPG, even over a medium-term forecast period (over AA3). However, Origin acknowledges the Commission's efforts in seeking independent advice from ACIL on this matter.

If anything, Origin believes that the ACIL's estimates of the fuel requirements of GPG remain at the lower bound of the volume that may be expected over AA3, noting the continued growth in electricity demand within the NEM and the tightening of generation capacity, despite important contributions from Basslink and investment in renewable energy sources. Furthermore, even if long-term drought conditions ease significantly in South East Australia, substantial inflows will be required to allow sustained contributions from depleted storages, particularly in the Snowy Mountains scheme.

## 3. Reference tariffs

### Cost allocation and tariff structures

#### *(a) Murray Valley transmission tariffs*

Origin supports the Commission's decision to require the recovery of incremental costs associated with the Murray Valley Pipeline (MVP) from the pipeline itself and the retention of the two-part tariff for the MVP. Accepting the approach proposed by GasNet may have created a precedent that would have required other users of the PTS to fund augmentations not supported by system-wide benefits.



*(b) Withdrawal Tariff-V*

Origin supports the decision to retain zonal pricing for tariff-V customers over AA3 as an appropriate application of Code principles. While the arguments put by GasNet and some other stakeholders that the application of postage stamp pricing would promote administrative simplicity this and other reasons asserted are not of themselves sufficient enough to justify another change to the tariff structure underpinning withdrawal transmission tariffs. We believe that retailers, to the extent they wish to amalgamate zonal tariffs can do so. Retaining the current approach provides retailers with this flexibility in the development of tariffs for end-use consumers.

We also support the Commission's assessment that reference tariffs should recover [at least a share of the] direct costs associated with augmentations and costs specific to certain zones, rather than allow for the allocation of these costs to all users, which would occur under postage stamp pricing (as described on page 179 of the Draft Decision).

*(c) Peak Injection charges*

Origin understands the Commission's reasons for retaining the current 10 peak day injection tariff approach established in AA2. While Origin agrees that there is administrative complexity and uncertainty associated with retaining this approach, we do not believe sufficient demonstration of the benefits associated with moving to an injection tariff on a seasonal basis have been presented to support this change.

*(d) Matched rebates*

The decision to retain matched rebates for tariff-V customers during AA3 for the North Hume, Murray Valley, Wodonga and Interconnect zones is supported by Origin given the Commission's decision to retain zonal tariffs arrangements for tariff-V.

Reference tariff path

After the Commission highlighted GasNet's proposed revenue control mechanism, Origin is comfortable that GasNet will have the capability to avoid price shocks that may have otherwise emerged between AA3 and AA4.

#### 4. Non-tariff elements

Extensions and expansions policy

Origin supports the Commission's decision that expansions of the PTS will be covered unless the regulator agrees that any expansion should be uncovered (for example expansions associated with the Interconnect). The appropriate regulatory process should be followed within the existing framework. As we stated in our submission to the Issues Paper, the proposal adds uncertainty for users of the Interconnect and may set a precedent for similar waivers of coverage for other expansions in the future. In order to provide certainty to both pipeline owners and users, the assessment of future/continued coverage of any expansions or extensions needs to be managed under the existing regulatory model and any proposals for uncovered expansions assessed on merit.



## Conclusions

Origin supports the amendments set out in the Draft Decision and accepts the approach the Commission has adopted in assessing the merits of a number of proposal put forward by GasNet.

We remain of the view that the GPG forecasts are conservative, but support the general approach adopted by ACIL Tasman in its final report of August 2007 to the Commission.

Origin encourages the Commission to seek further information where required (for example, forecast injection volumes by zone that may assist in the assessment of forecast volumes and associated requirements for new capital expenditure) and would welcome discussion with the Commission on any of the matters raised in this submission.

Yours sincerely

[SIGNED]

Randall Brown  
Regulatory Development Manager  
Retail  
(03) 9652 5880 - [Randall.Brown@Originenergy.com.au](mailto:Randall.Brown@Originenergy.com.au)