ACCC Issues Paper:

Revisions of
Access Arrangements of GasNet and VENCorp

Submission by VENCorp

13 May 2002

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1 GasNet Services, Terms and Conditions for Services

Refer to Issue Paper Executive summary, section 1.5.1; GasNet Access Arrangement sections 1.4, 3.1, 3.2; GasNet Submission sections 1.10.2, 3, 10.1, 10.2, 10.3; VENCorp Access Arrangement sections 1.1, 1.3, 5.1, 5.3; also VENCorp Access Arrangement covering letter dated 28 March 2002.

Summary

The Commission has asked whether the allocation of responsibilities between GasNet and VENCorp is appropriate to service the Victorian gas market.

GasNet propose reference tariffs without providing a corresponding description of the reference services provided, with terms and conditions to be as set out in the MSO Rules.

This does not comply with the requirements of the Access Code (refer attached legal advice).

VENCorp requests that the Commission require a change to GasNet's access arrangement to include a description of the transportation and capacity services that GasNet provides and details of the terms and conditions of access. The rationale for this request follows:

- VENCorp is a significant user of the GasNet system;
- VENCorp requires GasNet transportation and capacity services in line with clause 5.3.1(a) of the MSO Rules;
- VENCorp and other users need to understand the reference services, terms and conditions GasNet will apply to extensions and expansions of the PTS[1];
- GasNet proposes to charge reference tariffs (which account for around 85% of the total fee for using the PTS) without describing corresponding reference services. VENCorp's legal advice is that this is incorrect at law, and contrary to the intention of the Access Code[2].

This can be achieved by GasNet including in its access arrangement either the entire Service Envelope Agreement, or describing the key obligations from that agreement.

In the absence of a clear commitment from GasNet to continue to make the PTS available to VENCorp for VENCorp to operate in accordance with the MSO Rules (as is currently incorporated in the definition of GasNet's tariffed transmission services)[3], amendments would be required to the MSO Rules to ensure the continuing availability of the PTS upon which VENCorp's access arrangement is predicated.

1 That is, the Principal Transmission System now referred to by GasNet in its revised access arrangement as the "GNS". Section 10, Item 7 of this paper refers.

2 That is, the National Third Party Access Code for Natural Gas Pipeline Systems.

3 Refer to Chapter 10 of the Victorian Tariff Order as gazetted on 17 December 1998, and to the current GasNet access arrangement which describes GasNet's Reference Service as, "…making the Principal Transmission System available to VENCorp as User in accordance with GasNet's Access Arrangement for the Principal Transmission System".

In summary, VENCorp wish to maintain at least the 'status quo', i.e. each of VENCorp and GasNet should describe the reference services it provides, and the terms and conditions on which it offers those services, in its access arrangement. Preferably GasNet should include in its access arrangement either the entire Service Envelope Agreement, or describe the key obligations from that agreement. Together, the two access arrangements should describe the total services provided to users, and each entity should describe the particular reference services for which it seeks approval of a reference tariff.

In a regulatory sense, it would be an unacceptable outcome if:

- GasNet, which accounts for around 85% (about $A95 million per annum) of the total annual transmission costs for the main Victorian transmission system, had no reference services for these charges defined in the access arrangement which sets out the associate GasNet reference tariffs;
- GasNet were able, as a result of its services not being specified in its access arrangement, to alter its services such that they were in conflict with the statutory functions of VENCorp as operator of the PTS; or
- Prospective users on the PTS were precluded from recourse to GasNet via the access dispute processes in the Access Code in regard to services provided by GasNet. This could arise if GasNet does not define its reference services and the terms and conditions of access in its access arrangement.

Background

Clause 5.3.1(a) of the MSO Rules requires that a Service Envelope Agreement remain in force at all times by which GasNet agrees amongst other things "to provide to VENCorp gas transportation services and pipeline capacity".

GasNet does in fact provide "transportation services and capacity", and that as the GasNet reference tariffs for these services typically constitute about 85% of the total annual transmission fees paid by shippers using the PTS, GasNet should provide a detailed description of the relevant services.

The GasNet proposal does not appear entirely clear, nor consistent. The following extracts from GasNet's revised access arrangement illustrate this point.

> At clause 1.4(a), GasNet states,
>
> > "GasNet is responsible for maintenance of the GNS".
>
> At clause 3.1, GasNet states,
>
> > "GasNet and VENCorp are parties to the Service Envelope Agreement, under which:
> >
> > (a) GasNet:
> >
> > (i) makes available the entire GNS to VENCorp; and
> >
> > (j) provides a range of supporting services to VENCorp".
>
> At clause 3.2, states,
>
> "Although it is a "Service Provider" under the Code (because "Service Provider" is defined to include both the operator and the owner of a pipeline), GasNet does not, under the MSO Rules regime, provide any aspect of the Reference Service directly to users."
>
> Also at clause 3.2, GasNet describes two components of the Reference Services, being:
>
> "(a) VENCorp Service, which VENCorp provides itself (these are dealt with in the VENCorp Access Arrangement); and

(b) the Tariffed Transmission Service, being the availability of the GNS, which is sourced by VENCorp from GasNet through the Service Envelope Agreement."

At clause 3.3, the GasNet terms and conditions are described as follows:

"The terms and conditions on which the Reference service is supplied are as set out in the MSO Rules from time to time."

This differs considerably from the obligations imposed on GasNet by its current access arrangement, and the Tariff Order, and from the express recognition in the current access arrangement that VENCorp is a user of GasNet's transmission services.[4]

VENCorp's ability to deliver its services is dependent on GasNet making the PTS available to VENCorp, and providing associated pipeline capacity and transportation services, as required by clause 5.3.1(a) of the MSO Rules.

GasNet regulatory obligations

In the absence of a clear commitment from GasNet to continue to make the PTS available for VENCorp, and other existing and prospective users, in accordance with the MSO Rules and Service Envelope Agreement, VENCorp submits that it may be appropriate to reconsider GasNet's regulatory obligations to better align them with those of a network service provider under the National Electricity Code, or at least to lock in consistency with:

- GasNet's current access arrangement and the Tariff Order obligations; and
- VENCorp's revised Access Arrangement,

in so far as these instruments ensure GasNet co-operation with VENCorp and facilitation of VENCorp's role under the MSO Rules and the Gas Industry Act.

GasNet services required by the market

GasNet's current access arrangement acknowledges that VENCorp is a "User" of GasNet's services[5]. VENCorp believes that this description should continue, given that section 10.8 of the Access Code defines a user to include " a person who has a current contract for a Service".

Also, in preliminary public consultation conducted by VENCorp regarding the access arrangement revisions, most respondent users agreed that GasNet should continue to describe the reference services it provides in its access arrangement.

Access Code requirements

VENCorp provides legal advice on this matter in the attachment.

GasNet has sought a reference tariff without clearly stating the specific reference service to which the reference tariff relates, and without stating the terms and conditions of supply for those reference services. This does not comply with the Access Code, which requires in section 2.29 that, for a revised access arrangement to be approved by the Regulator, it must include the elements contained in Sections 3.1 to 3.20, inclusive.

Sections 3.1, 3.2, 3.3 in combination require that a reference tariff be detailed for each reference service being offered. The fact that the current capacity of the GasNet PTS is fully contracted to VENCorp is not a relevant consideration in this context, as the Pipeline remains Covered, which

4 Refer to clauses 2, 2.1, 5.2.2, 5.4.2 and 5.4.2 of GasNet's current access arrangement, and the definition of Tariffed Transmission Services in Chapter 10 of the Tariff Order.

5 Refer to clauses 5.2.2 of GasNet's current access arrangement which states that "GasNet will make the tariffed transmission service available to VENCorp as User at the Reference Tariffs, on the terms and conditions *[these in turn refer to the Service Envelope Agreement and Tariff Order]* and in accordance with the Reference Tariff Policy", and clauses 5.4.1 and 5.4.2.

means that an approved access arrangement must be in place at all times. Also, an access arrangement should explain how a service provider will deal with requests for additional capacity, and when it will extend or expand the PTS (through the extension/expansion policy). GasNet has a significant discretion outside the MSO Rules in this regard.

GasNet has sought a reference tariff in circumstances where it states that it provides no reference service at all, however, in clause 3.2 of its proposed access arrangement it alludes to the fact that the reference tariff sought relates to a tariffed transmission service, which is a component of a reference service that it asserts VENCorp is providing.

Section 8.1(a) of the Access Code contains one of the reference tariff principles that indicates that a reference tariff should be designed to permit a service provider to collect revenue in respect of the reference service that the service provider will deliver.

In order for GasNet to be entitled to claim a reference tariff, GasNet must link that reference tariff to a reference service that it will provide to users or prospective users.

Section 3.6 requires an access arrangement to include the terms and conditions on which the service provider will supply each reference service. GasNet has not provided detailed terms and conditions, but simply referred to the MSO Rules as in force from time to time. VENCorp submits that this is too general, does not describe in sufficient detail for users the actual services provided by GasNet, and ignores the terms and conditions of the Service Envelope Agreement.

It is understood that GasNet objects to providing a reference service, and consequently the terms and conditions of access, as it considers that what it is doing, i.e. making available pipeline capacity to VENCorp to operate the pipeline, does not constitute a service within the meaning of the Access Code.

The legal advice on this matter clearly demonstrates that this view is flawed and that a reference service and terms and conditions of access must be detailed in GasNet's proposed access arrangement for it to be approved by the Regulator.

2 Prudent Discounts

Refer to ACCC Issues Paper Executive Summary, sections 1.5.3 and 2.7; GasNet access arrangement clause 5.12; and VENCorp access arrangement section 5.2..

Summary

The Commission has asked, "How should GasNet and VENCorp share the cost of a prudent discount?"

VENCorp believes that in the first instance, GasNet alone should offer prudent discounts given that:

- VENCorp believes this approach is consistent with GasNet having the commercial relationship with users, particularly in relation to extensions and expansions of the PTS;
- Users and GasNet should be indifferent as to whether GasNet on its own or GasNet and VENCorp offer prudent discounts; and
- The nature of VENCorp's reference services are such that it is difficult to justify VENCorp offering a different charging structure between users.

Ultimately it is in all users' interests to ensure that the gas transmission system is used as efficiently as possible. Therefore, VENCorp wishes to work with GasNet to ensure that all users are encouraged to consume gas where the consumption of such gas results in a benefit to all users in the form of covering some part of the fixed costs.

As stated in its proposed access arrangement, VENCorp will consider prudent discounting. However, in deciding the extent of any prudent discount to be offered by VENCorp over the next access arrangement period, the following matters should be considered:

1. VENCorp's tariff policy in its proposed access arrangement enables VENCorp to consider prudent discounting on a case-by-case basis, but it should be noted that in doing so, VENCorp may be required to seek a revision of its access arrangement under section 2 of the Access Code;
2. The best way of achieving prudent discounting is for GasNet to seek the full prudent discount. To the extent that GasNet is able to offer, and takes responsibility for deriving, prudent discounts that (in conjunction with non-discounted published VENCorp and other charges) will encourage continued or new consumption, then it should do so to the full extent. Advantages of this approach include:
    a. This approach is consistent with GasNet having the commercial relationship with users, particularly in relation to extensions and expansions of the PTS;
    b. Implementation by one Service Provider is likely to be more efficient and easier for users to understand;
    c. From GasNet's perspective, it should be indifferent in this matter. GasNet will be kept whole as it will recover any shortfall in revenue from other users;
    d. The outcome for other users is likely to be materially the same regardless of whether GasNet offers the full prudent discount or whether GasNet offers a prudent discount in conjunction with VENCorp;

3. VENCorp concurs with the Commission's observation that "in practice, as the VENCorp reference tariff makes up a comparatively small part of the combined charge, VENCorp may not in itself have the capacity to offer a sufficient discount"; and
4. VENCorp believes that there is little justification for providing different charging structures for its reference services given the nature of the benefits provided by such to users.

3 Cost allocation

Refer to ACCC Issues Paper section 3.2; and VENCorp Access Arrangement sections 2.6 and 2.7.

Summary

The Commission has asked whether there is a better methodology for the allocation of costs (other than Ramsey pricing model) that meets the Access Code requirements.

VENCorp wishes to note that:

- It has sought input from users in the last 2 years on whether there was a preferred basis for charging for its reference services. Submissions made by users supported continued application of the existing methodology;
- Its cost allocation methodology is not a Ramsey pricing model, but is one which is aimed at achieving fair and equitable tariffs.

VENCorp is happy to comply with an alternative meaningful charging basis provided that it is fair and equitable to all users. VENCorp has consulted with the market on the following occasions:

1. In each of its previous annual budget processes since market commencement;
2. Particularly in preparation for the 2001/2002 annual budget submission to the ACCC;
3. As part of VENCorp's pre-consultation of the access arrangement during October and November 2001.

On the basis of the submissions received VENCorp has not made changes to its pricing structure (i.e. type of tariffs charged) or to its cost allocation methodology[6].

The statement in the ACCC's Issues paper that VENCorp's commodity "tariffs are determined using Ramsey pricing principles" is considered to be potentially misleading.

As set out in section 2.6 of VENCorp's draft revised access arrangement, VENCorp has set its proposed commodity tariffs so that they continue to be about 1% to 2% of total delivered energy costs for most customers with the aim of achieving fair and equitable tariffs. Given the range of customer types, and consequent differences in their delivered energy costs, this cannot be met exactly for all customers or customer segments. Therefore, the commodity tariffs have been structured such that where charges are required to materially exceed the guideline for a particular customer segment, then this occurs in segments with low price elasticity so as to result in minimal distortion in usage or investment. In general this means that high-use customers (i.e. Tariff D customers) are levied a lower average $/GJ rate than low-use customers (i.e. Tariff V customers).

In section 8.1(c) of VENCorp's Access Arrangement Information, VENCorp states that this approach is "consistent with Ramsey pricing principles". However, the approach was not derived from, nor *based* on any objective to apply Ramsey pricing principles. As such, a generic critique of Ramsey pricing principles is unlikely to be relevant in the context of VENCorp's proposed Tariff V and Tariff D commodity tariffs.

[6] Note however, that VENCorp has proposed, in response to the feedback by participants on this matter, a five year price path for its commodity and registration tariffs as part of its revised access arrangement, rather than the current annual reset.

4 GasNet reference tariffs

Refer to ACCC Issues Paper section 2.7.

Summary

The Commission has sought comment on GasNet's proposed changes to its tariff methodology.

VENCorp wishes to advise the Commission of the following matters:

1. *Redefinition of transmission zones* - the proposed changes would require VENCorp to modify its billing and settlement systems requiring some additional cost above that included in its access arrangement information. While VENCorp estimates the costs for this to be around $200k, VENCorp is concerned primarily with the potential difficulty of allocating resources to implement the required changes in time for the 1 January 2003 start date. VENCorp has spoken with GasNet on this matter following review of their proposed Access Arrangements. GasNet has advised that they were not aware of these potential implications at the time that they were developing their proposals for the tariffs, and that the proposals may be able to be modified to avoid this issue; and
2. *Tariff amendments made by GasNet during the access arrangement period* - Appropriate consideration should be given to any implications from such amendments to the operational costs of VENCorp, prior to any implementation. VENCorp recommends that GasNet only be allowed to make such changes subject to the appropriate level of consultation and regulatory oversight. Such an approach would be more consistent with the underlying principles of the Access Code.

At this stage, VENCorp does not propose to alter its metering tariffs as submitted to the Commission on 28 March 2002. Rather VENCorp and GasNet will liaise to consider this issue further, and seek to develop options to minimise costs and impacts.

If, however, our further analysis indicates that a tariff adjustment is necessary, VENCorp will advise the Commission, and ask that this be taken into account in the Commission's final decision.

VENCorp notes the following matters which have potential cost and timing implications for proposed changes to GasNet's tariff methodology:

- The redefinition of transmission zones from postcode to Custody Transfer Meters (CTMs) at Connection Points;
- Change to the basis of determining transmission withdrawal data; and
- Proposed amendments to transmission zones during the access arrangement period.

Redefinition of transmission zones

VENCorp is required under the Service Envelope Agreement to provide all information necessary for GasNet to apply its tariffs.

VENCorp understands that GasNet is proposing to define the withdrawal zones by CTMs at Connection Points compared with the existing basis of using postcodes. In order for VENCorp to provide withdrawals by Market Participant by transmission zone (as required under the SEA), VENCorp must be able to identify the transmission zone associated with every meter that could change retailer. Based on current systems and processes, VENCorp is not presently able to use these systems, without change, to determine the transmission zone at a distribution system supply point (i.e. Daily Meter or Basic Meter).

Therefore, the impact on VENCorp of GasNet's proposed changes is as follows:

1. Current transmission zone assignments for interval meters will have to be validated against the new definition (assessed as a low impact);
2. Current business processes for transmission zone assignments of CTM's will have to be updated, but no system changes are required (assessed as a low impact);
3. Changes to current business processes, transaction protocols and IT Systems for identifying transmission zones at Distribution Supply Point meters will have to be agreed with Participants, designed, developed, tested and put into production. This will not only require increased costs over and above those included in VENCorp's forecasts (in the form of depreciation of system assets) but will require significant development and testing time prior to commissioning.
4. VENCorp is unlikely to be able to make the necessary system changes by 1 January 2003, given the number of current high priority projects to be completed during 2002, particularly in relation to the implementation of full retail competition (assessed as a major impact).

As it is currently formulated, the proposal by GasNet would entail costs of about $200k for the system changes, and VENCorp is concerned with the potential difficulty of allocating resources to implement the required changes in time for the 1 January 2003 start date in light of other commitments for implementation of gas full retail contestability later this year. This proposal may also require consequential changes to distributor and retailer business processes and IT systems.

VENCorp has spoken with GasNet on this matter. GasNet has advised that they were not aware of these potential implications at the time that they were developing their proposals for the tariffs. Based on preliminary discussions with GasNet on this matter, it appears that it should be possible for a simple solution to be developed which might preclude the need for substantive changes to existing systems. VENCorp recommends that this matter be given appropriate consideration by the Commission in examining the proposals by GasNet.

Change to the transmission withdrawal data

Some system withdrawal points occasionally have reverse flows (i.e. an injection back into the transmission system), for operational reasons. Under the current GasNet access arrangement these reverse flows are not considered in determining tariffs, and VENCorp systems are constructed to accordingly provide GasNet with each Market Participant's aggregated withdrawals[7] per tariff zone.

[7] adjusted for Distribution UAFG

GasNet has proposed under its revised access arrangements that VENCorp provide it with each Market Participants' withdrawals per tariff zone calculated as aggregate withdrawals less aggregated injections . This will require changes to the VENCorp systems, however the cost impacts of this are expected to be low (approximately $15k).

Proposed amendments to transmission zones

Under section 4.10 of GasNet's access arrangement dealing with 'Amending Zones', the transmission zones can be amended without reference to VENCorp or to any other party.

Such amendments are most likely to require VENCorp to put in place new business processes (and possible new IT systems) to ensure any amendments are captured by VENCorp systems. Changes may also be required to distributors' and retailers' business processes and IT systems.

As this has the potential to impact on VENCorp and other Participants, such changes should only be permitted after appropriate consultation and/ or notification with affected parties.

5 Pass through events

Refer to ACCC Issues Paper section 2.2.1; GasNet access arrangement clause 4.9, 6 and the definitions of ***Pass Through Event*** *and* ***Regulatory Event*** *in clause 9.1.*

Summary

Though the Commission has sought comment only in relation to the potential effects of GasNet's proposal on the relative risks of GasNet and users of the PTS, VENCorp submits that the Commission should also consider whether or not the proposal:

- Is appropriate in that increases can be imposed without consultation with affected users, or on a retrospective basis; and
- Is inconsistent with the intention of section 2 of the Access Code which would otherwise require an amendment of GasNet's access arrangement in order to vary tariffs.

One of the changes that GasNet has proposed from its current access arrangement is to include a 'pass through' mechanism whereby tariffs could be increased to reflect higher costs incurred during a regulatory period (resulting from tax increases, increased regulatory requirements and increased insurance premiums) without assessment under the review process set out in section 2 of the Access Code. The mechanism does not require the pass through of decreases in these costs.

GasNet proposes that the Commission would have 20 business days to approve a proposed increase, which, in the absence of a decision by the Commission, would then be deemed to be approved.

VENCorp notes that the definition of a Regulatory Event is very wide, and includes,

> *"…a decision made by the Commission or any other Authority* [includes VENCorp, and the Office of Gas Safety] *or any amendment to an Applicable Law* [includes the MSO Rules] *after the Commencement Date that has the effect of:*
>
> *(a) imposing minimum standards (including safety or technical standards) on GasNet relating to the Tariffed Transmission Services that are different from the set of minimum standards imposed on GasNet associated with the Tariffed Transmission Service at the Commencement Date;*
>
> *(b) altering the nature or scope of the services that comprise the Tariffed Transmission Service; or*
>
> *(c) substantially varying the manner in which GasNet is required to undertake any activity forming part of the Tariffed Transmission Service from the Commencement Date,*
>
> *as a result of which GasNet incurs materially higher costs associated with the Tariffed Transmission Service than it would have incurred but for that event."*

As noted above, the GasNet proposal allows the Commission only 20 days to decide whether a pass through event has occurred (i.e. to apply the GasNet definition), and failure to do so is deemed acceptance.

VENCorp notes that similar mechanisms (i.e. for deemed acceptance by the Commission) occur within VENCorp's access arrangement with regard to the annual approval by the Commission of VENCorp's market fees. However, the GasNet proposal appears open-ended and lacks transparency. In VENCorp's case, such a mechanism only occurs within predetermined parameters and processes, requires prescribed and extensive consultation procedures to be followed, and arises from a non-profit industry representative organisation.

Unlike the consultative review process under the Access Code, the proposed pass through mechanism could allow GasNet to increase tariffs to retailers without any consultation with affected users, and may even allow tariff increases on a retrospective basis.

VENCorp submits that, at the very least, the Gas Market Consultative Committee and MSO Rules change process provide appropriate forums in which GasNet should raise any potential increases in its costs associated with a proposed amendment to the rules. If GasNet fails to do so, or to substantiate its assertions to the satisfaction of industry participants in these forums, then it ought not to be able to avail itself of a potential automatic pass through for alleged increased costs. Similar principles ought to apply to consultative processes run by independent safety regulators, or by other authorities.

Accordingly, VENCorp suggests that the Commission consider reviewing GasNet's proposal.

6 Extensions and expansions

Refer to ACCC Issues Paper section 2.9; GasNet Access Arrangement section 5; GasNet Access Arrangement Submission sections 1.10.3, 9.6, 10.8; MSO Rules clause 5.3.1; Service Envelope Agreement sections 3.3, 3.4 and 5.1; and also the Tariff Order Chapter 10 – Glossary.

Summary

GasNet's Extensions and Expansions Policy states that an extension or expansion to the GNS is covered by the access arrangement unless GasNet provides written notice to the Commission, before the extension comes into service, that the extension will not be covered by the access arrangement.

VENCorp believes that it is imperative that all *expansions* must be covered by GasNet's access arrangement for the PTS. It would be impractical to have a situation where, for example, pipeline looping or a compressor upgrade results in an expansion of capacity on the PTS/GNS that is not available for VENCorp to operate under the MSO Rules.

Therefore, VENCorp believes that GasNet's Extensions and Expansions Policy in its access arrangement should make explicit provision for any expansion of the GNS to be dealt with under the Service Envelope Agreement and MSO Rules, as it does in its current access arrangement.

As the Issues Paper notes, GasNet proposes to continue the current arrangement whereby it is solely responsible for the PTS extensions and expansions policy. Under the policy, GasNet would be able to decide whether any new extension would be covered by the access arrangement, regardless of whether the extension is small or significant.

The extensions and expansions policy detailed in GasNet's revised access arrangement states that an extension or expansion to the GNS is covered by the access arrangement unless GasNet provides written notice to the Commission, before the extension comes into service, that the extension will not be covered by the access arrangement.

VENCorp notes that while GasNet can determine whether or not to seek coverage of extensions, for the purpose of certainty, there should be no room for discretion regarding expansions and accordingly, all expansions should be automatically covered by the access arrangement.

The MSO Rules require VENCorp and GasNet to at all times maintain a valid Service Envelope Agreement in force under which GasNet agrees to provide pipeline capacity by means of those pipelines that form part of the PTS on terms which are not inconsistent with GasNet's access arrangement and the Tariff Order.

VENCorp and GasNet are to agree the effect on the Service Envelope capacity as a consequence of any expansion or extension that will become part of the PTS. As noted above VENCorp is specifically concerned with expansions.

For example, if GasNet were to expand the capacity of the PTS by either upgrading a compressor station (e.g. through improved / updated control systems or possibly the restaging of individual units) or looping of a segment of the PTS, then from an operational point of view it would be impossible to distinguish the difference between that part of the facility or pipeline that is providing the original capacity and that which is providing the expanded capacity.

Accordingly, VENCorp submits that GasNet's extensions and expansions policy should make explicit provision for expansion of the PTS to be dealt with under the Service Envelope Agreement and MSO Rules.

This also highlights the problem outlined in section 1 of this response, i.e. in the absence of a defined GasNet reference service, potential users are uncertain as to the terms and conditions of access, which may or may not be under the MSO Rules.

7 Key Performance Indicators (KPIs)

Refer to ACCC Issues Paper section 3.7 and VENCorp access arrangement section 7.

Summary

The Commission has sought comment on the appropriateness or otherwise of the supplied KPIs included in VENCorp's access arrangement information.

VENCorp acknowledges the need for providing mechanisms for demonstrating and testing performance of VENCorp and is supportive of providing relevant external performance benchmarks that will assist in assessing its performance compared with comparable organisations. However, based on previous work completed, which highlighted the difficulties in this regard, VENCorp encourages users to make meaningful and practical recommendations when responding to the Commission.

In addition, in assessing any submissions made, VENCorp encourages the Commission to take account of the cost of implementation versus the benefits to be gained.

As set out in section 7 of its access arrangement Information, VENCorp:

1. Acknowledges the need for providing mechanisms for demonstrating and testing performance of VENCorp; and
2. Is supportive of providing relevant external performance benchmarks that will assist in assessing its performance compared with comparable organisations.

However, work completed to date by VENCorp on the possibility of benchmarking performance against other similar organisations has concluded that meaningful direct comparison with the statutory gas functions of VENCorp is highly problematic and not likely to provide effective drivers for improvements in VENCorp's performance. In particular, as part of its 1999/2000 annual corporate budget process VENCorp undertook analysis [8] of potential external benchmarks. The conclusion reached was that there were no organisations that offered a meaningful direct comparison with VENCorp's statutory gas functions.

During the 2000/2001 financial year, NEMMCO engaged London Economics to undertake analysis to attempt to benchmark its fee structures to other electricity power pool operators around the world and reached the same conclusion in its Draft Determination[9]:

> *"While NEMMCO regards information about fee structures adopted by power exchanges and power system operators in other countries useful, NEMMCO considered that the differences between the structures of those overseas markets, the roles and functions of other administrative bodies compared to the structure of the NEM and the roles and functions of NEMMCO and NECA to be materially different."*

In its final determination, after carefully considering responses on this view by interested parties, NEMMCO concluded that [10] *"for the reasons set out in its Draft Determination, NEMMCO does not consider it appropriate to adopt a fee structure which is a facsimile of a structure adopted overseas."*

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[8] Potential benchmarks included NEMMCO, NECA, VPX in Australia, from Great Britain Transco and National Grid, and in the United States CNG, Duke Power, Williams Energy Services and Enron

[9] NEMMCO; "Draft Report and Determination of the Structure of Participant Fees"; March 2000; p50 (refer http://www.nemmco.com.au/operating/participation/fees/fees2.htm)

[10] NEMMCO; "Final Report and Determination of the Structure of Participant Fees"; 31 March 2000; pp46-47 (refer http://www.nemmco.com.au/operating/participation/fees/fees2.htm)

During 2001, VENCorp commissioned consultants to undertake a survey of its key stakeholders during 2001 to help measure current levels of satisfaction and to determine the value of the services VENCorp provides. The results of the stakeholder survey have been communicated back to those who participated and will be used by VENCorp to develop action plans for improving performance and optimising stakeholder value.

VENCorp emphasises that it is willing to consider, and where appropriate amend, its performance monitoring regime to take account of meaningful external benchmark data, provided that any such developments can be shown to be:

- cost effective, having regard to the likely value of possible improvements given the small size of VENCorp's total costs and the likely costs for implementation of such measures; and
- able to provide effective drivers for performance improvements in VENCorp, having regard to its statutory gas functions.

VENCorp has tested meaningful benchmarks as far as can be reasonably expected at this time. Nevertheless, VENCorp remains open to suggestions for further development of benchmarks.

In responding to the Commission, VENCorp encourages users to provide sufficiently well developed information on any alternative approaches to that proposed by VENCorp in its access arrangement information to allow for a thorough appraisal of the alternatives, and in so doing, to take account of the cost of implementation versus any benefit to be gained.

8 Comparison of VENCorp and GasNet Annual Demand Forecasts used in their respective Access Arrangements

Refer to Issue Paper sections 2.6 and 3.4.

Summary

The Commission noted that the GasNet and VENCorp demand forecasts were inconsistent and sought comments on whether GasNet's and VENCorp's demand forecasts should be the same.

To assist the Commission in its deliberations, VENCorp has set out below an explanation of the differences between the two sets of forecast demand.

The VENCorp demand forecasts have been compiled on a financial year basis for the purpose of assisting the Commission and Users in reviewing proposed VENCorp's tariff settings. GasNet's are provided on calendar year basis. Therefore direct comparisons need to adjust for this financial year/calendar year effect. Once adjusted, the differences can be explained by:

1. Different assumptions made in respect of urban and global warming effects (about 1.3PJ in the last year); and
2. The VENCorp demand forecasts including withdrawals into Underground Storage and exports to NSW whereas GasNet does not.

In relation to GasNet and VENCorp peak demand forecasts, once the VENCorp forecasts are adjusted to a calendar basis the difference is immaterial.

VENCorp provides demand and supply information on a calendar year basis in its Annual Planning Review document, which is published annually and available on its website.

The demand forecasts presented in VENCorp's proposed Access Arrangement are on a financial year basis. This consistent with the budget and tariff approval process that VENCorp has been required to undertake each year since market commencement. The approach is required in order to:

- align with the Commission's current annual approval process of VENCorp's budget and tariffs;
- allow the Commission and Users to more readily analyse the tariff proposals contained in VENCorp's proposed Access Arrangement for the next regulatory period;
- comply with State government requirements on VENCorp for approval of its corporate plan and the normal financial reporting requirements for Australian-owned companies.

GasNet versus VENCorp demand forecasts

The table below sets out the comparison of GasNet and VENCorp demand forecasts:

Table 1. Comparison of GasNet and VENCorp AA demand forecasts

Calendar year	GasNet – calendar year (PJ) [11]	Financial year (ending 30 June)	VENCorp – financial year (PJ) [12]
2003	216.2	2003	98.5[13]
2004	225.3	2004	223.4
2005	232.7	2005	233.0
2006	237.2	2006	240.2
2007	241.3	2007	245.5
		2008	137.0[14]

In order to compare the two sets of demand forecasts, the forecasts need to be on a like for like basis.

The VENCorp and GasNet demand forecasts are derived from VENCorp Annual Planning Review (30 November 2001) (APR) forecasts which exclude UGS withdrawals and NSW exports (see below). The comparison of the two sets of demand forecasts on a calendar year basis is as follows:

Table 2. Comparison of GasNet and VENCorp APR demand forecasts

Calendar Year	VENCorp/NIEIR (PJ)	GasNet (PJ)	Difference (PJ)
2002	211.4		
2003	216.6	216.2	0.4
2004	225.9	225.3	0.6
2005	233.5	232.7	0.8
2006	238.3	237.2	1.1
2007	242.6	241.3	1.3

Urban/Global Warming Effects

As Table 2 shows, the difference in annual demand forecasts increases to 1.3PJ by 2007. This is due to different assumptions by VENCorp and GasNet in respect of urban and global warming effects.

In August 2001, VENCorp reported a statistically significant upward trend in average winter temperature observations at the Melbourne Bureau of Meteorology (BOM) weather station over the last 50 years. This ‘warming’ was attributed to inner city urban warming given that analysis by VENCorp of historical temperature data could not identify any global or urban warming effect in either regional Victoria or at outer suburban locations. Therefore, VENCorp adjusted the temperature standard to represent the average weather as recorded at the Melbourne BOM site in 2001.

GasNet had CSIRO confirm the trend in temperature observations and its magnitude. CSIRO concluded that the trend was mainly due to urban warming and partly to global warming.

[11] Section 4.2 of GasNet’s access arrangement information draft 27 March 2002
[12] Section 6.5 of VENCorp access arrangement information submitted 28 March 2002
[13] Relates only to the 6 month period January – June 2003
[14] Relates only to the 6 month period July – December 2007

GasNet extrapolated the trend in temperature observations through the forecast period and adjusted VENCorp's APR forecasts.

In summary, VENCorp has corrected forecast loads for the trend in temperature observations due to localised urban heating effects whereas GasNet's adjustments to the VENCorp forecasts assumes there is a heating effect across the PTS as a whole.

The differences are not material when compared with the normal annual load variations due to weather cycles and load forecast uncertainty over 5 years.

Underground Gas Storage (UGS) and exports to NSW used in VENCorp AA

The load projections used by VENCorp in its proposed Access Arrangement include withdrawals into UGS and exports to NSW in the Tariff D demand forecasts. These additional projections were not published in the APR. GasNet has not included these loads in its forecasts:

1. In the case of UGS, GasNet states that the tariffs are designed to match marginal supply costs from the operation of Brooklyn compressor station (i.e. no adjustment was made for withdrawals into UGS); and
2. NSW exports are not included in the GasNet demand forecasts, although northerly flows of 3PJ are assumed by GasNet for the purposes of calculating a tariff. Under VENCorp's projections the export and withdrawal loads increase the tariff D commodity forecasts by 3 to 6% in each year.

The impact of the above in VENCorp's forecasts is shown in Table 3.

Table 3. Exports to NSW and UGS used in VENCorp's AA demand forecasts

Financial Year	NSW exports (TJ)	UGS (TJ)	Total (TJ)
2002	500	3,277	3,777
2003	500	4,499	4,999
2004	500	2,922	3,422
2005	500	4,178	4,678
2006	500	5,088	5,588
2007	500	5,809	6,309
2008	500	6,216	6,716

Peak Day Forecasts

The comparison of GasNet's forecast peak day forecasts (by calendar year) with those of VENCorp (financial year) are set out in Table 4.

Table 4. Peak Day Forecasts

Year	VENCorp Financial Year (TJ)	GasNet Calendar Year (TJ)
2003	1,104	1,132
2004	1,133	1,174
2005	1,170	1,209
2006	1,208	1,235
2007	1,236	1,257

The differences between GasNet's peak day forecasts and those of VENCorp are essentially due to the financial year - calendar year difference. In the VENCorp forecasts the winter peak day is assumed to occur in July or August which occurs in the financial year following the calendar year. Other than that the differences are very slight.

9 Approval and reporting process

Refer to ACCC Issues Paper section 3.3.

Summary

The Commission stated that in relation to VENCorp's registration and commodity tariffs:

"However, for the first six months of the second access arrangement period, the current annual approval process would apply."[15]

VENCorp believes that in fact the first six months of the second access arrangement period is subject to the Access Code approval process. However, VENCorp has submitted to the ACCC both its annual Budget and Market Fee Statement for 2002/03 and its revised access arrangement on the basis that the fees for July-December 2002 will be the same as those for January – June 2003.

While VENCorp's current tariff approval mechanisms (as set out in the Tariff Order, and clause 2.6 of the MSO Rules) purport to apply for the 12-month period commencing 1 July 2002, VENCorp's current access arrangement expires on 31 December 2002. VENCorp's revised access arrangement, once approved, will override any inconsistent provisions in the Tariff Order or MSO Rules.

Nevertheless, as these instruments bind VENCorp and the Commission at this time, and as they reflect robust consultative processes subject to the Commission's consideration and approval, VENCorp has submitted its revised access arrangement with proposed commodity and registration tariffs being set on the following basis:

1. 1 July 2002 to 31 December 2002 – VENCorp's current annual approval process as set out in clause 2.6 of the MSO Rules will apply to determine tariffs, and it is proposed that this establish forecasts for the period 1 January 2003 to 30 June 2003;
2. 1 January 2003 to 31 December 2007 – approval process required under the Access Code for VENCorp's revised access arrangement. VENCorp's forecast expenditure for the first 6 months of 2003 will be submitted as part of the current annual approval process. Forecasts for the remainder of the next access arrangement period are submitted in accordance with the revised access arrangement. Tariffs will be set for the entire 5-year access arrangement period in accordance with the revised access arrangement.

Therefore, it is theoretically possible for the tariffs determined under VENCorp's revised access arrangement for the period 1 January to 30 June 2003 to be different from the tariffs determined under the current approval process for the period 1 July 2002 to 20 June 2003. However, VENCorp has prepared the two submissions on the basis that the same tariffs will apply for both periods.

[15] ACCC Issues Paper section 3.3

10 Other matters

In the Executive Summary of the ACCC Issues Paper, the Commission states

"VENCorp's expected real tariff reduction of approximately ten per cent for metering charges and approximately four per cent for commodity charges over the second access arrangement period."

VENCorp wishes to note that in relation to the commodity charges, it has proposed an *initial* reduction of *four per cent* compared with the current charges[16] and a *further* real tariff reduction of approximately *ten per cent* over the second access arrangement period.

Upon reviewing GasNet's access arrangement, VENCorp has noted the following minor matters that should be corrected:

1. Schedule 1.6(c) of GasNet's access arrangement - VENCorp does not *determine* the applicable benchmark DUAFG, only *applies* it;
2. Schedule 2.1 of GasNet's access arrangement - the Culcairn injection MIRN is 20000001PC rather than V0000M126, and the site name is Culcairn;
3. Schedule 2.2 of GasNet's access arrangement - the Culcairn withdrawal MIRN is 20000002PC, rather than V0000M126;
4. GasNet asserts in section 3.2.2 of its Access Arrangement Submission that the Service Envelope Agreement will expire in December 2007. This is not correct. Clause 5.3.1(a) of the MSO Rules require that a valid service envelope agreement be in place between VENCorp and GasNet at all times, dealing with capacity and transportation services provided to VENCorp by GasNet. The Service Envelope Agreement itself provides for renegotiation prior to December 2007, and in the absence of agreement, for the current agreement must continue in force unless or until an independent arbitrator proposes alternative contractual terms.
5. The dates provided by GasNet and VENCorp for the current Service Envelope Agreement differ. The agreement was signed on 22 January 1999, and at that date replaced the previous Pipeline Systems Deed and the TPA Service Envelope Agreement, both of which were entered into by VENCorp and GasNet (as TPA) on 11 December 1997. The current Service Envelope Agreement continues until 11 December 2007. However, as noted above, clause 5.3.1(a) of the MSO Rules requires that a valid service envelope agreement be in place at all times. Clause 18 of the current Service Envelope Agreement deals with ongoing application of that agreement, requiring that it continue until such time as VENCorp and GasNet agree either to terminate it or replace it.

[16] That apply over the period 1 July 2001 to 30 June 2002

6. Description of pipeline capabilities - The following change to the description of the pipeline capabilities as set out in Appendix 1 of GasNet's access arrangement reflects VENCorp's access arrangement information, on the understanding that the Iona to Lara pipeline is now under the one licence:

	South West System			
Vic:227	North Paaratte to Iona	7.8	150	7400
Vic231~~Vic:170~~	~~Iona to Colac~~ Iona to Lara	143.9~~49.0~~	500	10200
~~Vic:183~~	~~Colac to Lara~~	~~94.9~~	~~500~~	~~10200~~

7. Definitions:

As anticipated in VENCorp’s covering letter for its revised access arrangement, GasNet has adopted a new term “GNS” to describe the relevant transmission system. We understand that GasNet adopted this terminology in order to show that the revised access arrangement will cover both the Principal Transmission System and Western Transmission Systems from 1 January 2003.

However, as noted in VENCorp’s submission:

- When the VENCorp and GasNet revised Access Arrangements commence, the assets that make up the Western Transmission System will be a part of the covered pipeline referred to as the Principal Transmission System. Any possible definitional concerns about delineation between the Western Transmission System and the Principal Transmission System are not relevant to the revised access arrangement, as there is only one system, the PTS;

- VENCorp's revised Access Arrangement continues to utilise the definition of ‘Principal Transmission System’ (which incorporates those assets previously called the Western Transmission System).

For the following reasons, VENCorp believes that the use of the term ‘Principal Transmission System’ provides clarity and helps to avoid confusion:

- The Gas Industry Act 2001 is the authoritative instrument and requires VENCorp to operate the Gas Transmission System (which it does pursuant to the MSO Rules), defining the Gas Transmission System as:

    - the primary transmission system, as existed before 1997; and

    - any approved transmission connection or transmission adjunct.

  The Act also enables VENCorp and another gas transmission company to agree from time to time that assets fall within or outside the Gas Transmission System definition.[17]

- VENCorp's Access Arrangement relates to that part of the Gas Transmission System owned by GasNet, meaning the assets owned by GasNet which are operated by

[17] Refer to the Gas Industry Act 2001 sections 3, 14(1), 14(2), 52, and 160(1).

VENCorp under the MSO Rules, and which are incorporated under the covered pipeline under the Access Code.

- Clearly, GasNet may have (and currently does have) assets other than the Principal Transmission System that are not operated by VENCorp under the MSO Rules.

- Potentially, VENCorp may operate pipelines other than GasNet's.

There is an ongoing and compelling need for a clear delineation of definitions relating to the Gas Transmission System arising from the Gas Industry Act and those assets covered by the access arrangements of VENCorp and GasNet. VENCorp considers the use of the definition “Principal Transmission System” to be the most appropriate means of achieving this clarity.

The Service Envelope Agreement utilises its own definition of Gas Transmission System, which is effectively equivalent to the definition of Principal Transmission System, as per VENCorp's access arrangement. Notably, this description is not the Gas Transmission System defined by the Gas Industry Act. The pro-forma Gas Transportation Deed adopts definitions similar to the Service Envelope Agreement, for the sake of contractual consistency.

VENCorp is of the view that, regardless of the terminology adopted in the various contractual and legal instruments, provided care is taken, the terminology will be legally effective and equivalent, and this should not create any technical issue.

However, VENCorp remains convinced that continued use of the term "Principal Transmission System" in its access arrangement is a superior approach as this is how the system has been commonly referred to, and that no compelling case has been presented for VENCorp to alter its access arrangement.

8. VENCorp notes that GasNet has, under clause 9.3 of its revised access arrangement, submitted its access arrangement for itself and on behalf of GasNet (NSW) as owners of the GNS. GasNet states that all references to GasNet are taken to be references to each of GasNet and GasNet (NSW) “*severally”* (as distinct from jointly and severally).

VENCorp has approached GasNet on this matter to clarify the status of the companies in regard to its contracts. VENCorp suggests that the Commission should also enquire of GasNet the allocation of responsibilities between the two entities.