



27 April 2010

Warwick Anderson
General Manager
Network Regulation North Branch
Australian Energy Regulator

By email: qldsagas@aer.gov.au

Dear Mr Anderson

RE: ENVESTRA QUEENSLAND ACCESS ARRANGEMENT DRAFT DECISION AND REVISED PROPOSAL

As a leading gas retailer in Queensland, Origin appreciates the opportunity to provide comment to the Australian Energy Regulator (AER) on its Draft Decision on the Access Arrangement for Envestra in Queensland.

Access Arrangement Information

Operational expenditure

Origin supports the AER's decision to reduce Envestra's operational expenditure and to benchmark this expenditure against other gas distributors.

Origin notes that Envestra proposed significant increases on the current period's expenditure, particularly in relation to network development (61 per cent), UAG (31 per cent) and administration and general (51 per cent).¹

1. *Unaccounted for gas*

In its initial submission Origin highlighted² that Envestra had underspent considerably on unaccounted for gas (UAFG) in the current access arrangement period (by up to 67 percent in one year), but still Envestra proposed a substantial *increase* in spending on both UAFG and mains renewal in the next period.³ The proposed increase is inconsistent with past performance and Origin supports the AER's decision to reduce this spending.

2. *Benchmarking*

Origin commends the AER's decision to benchmark Envestra (QLD)'s opex against spending on other gas distribution networks.

¹ AER, Access arrangement proposal for the Qld gas Network Draft Decision, February 2011, p.122
² Origin, Envestra (QLD) and APT Allgas Access Arrangement Proposals Submission, November 2010, p.3
³ AER, Access arrangement proposal for the Qld gas Network Draft Decision, February 2011, p.121

Wilson Cook, consultant to the AER on Envestra's proposed expenditure, found that operating costs on Envestra's Queensland network were unlikely to be at an efficient level.⁴ Wilson Cook found that Envestra (QLD) was the most expensive of the businesses it compared, based on operating expenditure per kilometre and opex per customer ('opex metrics'). When Wilson Cook adopted the benchmarks used by Envestra's opex consultants⁵, they found that Envestra opex exceeded the mean of the businesses compared on all measures, by between 20 and 150 percent.

In its response to the AER's Draft Decision and the findings in the Wilson Cook report, Envestra has sought to refute⁶ the finding that Envestra's opex is high compared with other gas distributors, primarily on the basis that:

- APT Allgas is the only network that has comparable physical characteristics to Envestra (QLD), and
- both capital expenditure (capex) and opex must be considered together.

Envestra has argued that in the current period the capex metrics of APT Allgas have been higher than opex metrics, whereas for Envestra (QLD) opex metrics have been higher than capex metrics. In Envestra's view, this means the two networks are more closely aligned in terms of overall cost than stated by Wilson Cook and the AER.

In Origin's view, Envestra's arguments on relative costs are erroneous. While it may be true that Envestra (QLD) had lower capex per customer and per kilometre in the current period than APT Allgas, Envestra has proposed substantial increases in capex for the next period (a 78 percent increase⁷), with no concomitant reduction in opex. If opex and capex metrics are inversely related in an efficient business, as Envestra have argued, then an increase in capex should be accompanied by a decrease in opex. Yet this is not what Envestra proposes.

In summary, Origin supports the AER's decision to look at Envestra (QLD)'s opex relative to other businesses. Origin does not think that Marksman's revised report counters the key finding of the AER and Wilson Cook: that the opex allowance awarded by the Queensland Competition Authority for the current period looks inflated based on revealed cost.

If you have any queries in relation to this submission, please contact me in the first instance on (03) 8665 7155.

Yours sincerely

SIGNED

Steven Macmillan
Regulatory Manager

⁴ Wilson Cook, *Review of Expenditure of Queensland & South Australian Gas Distributors: Envestra Ltd* (Queensland), December 2010, p.45

⁵ Marksman Consulting

⁶ Envestra has relied on a finding from its consultant, Marksman, in its revised report for Envestra on opex (Marksman, *Further Gas Distributor Benchmarking Report Envestra Queensland*, March 2011, p.6)

⁷ Envestra Queensland Gas Distributor Access Arrangement Information, Revised proposal, March 2011, pp.41,90