

18 September 2002

Mr Michael Walsh
Director Regulatory Affairs – Gas
ACCC
GPO Box 3648
Sydney **NSW** 1044

Dear Michael,

Response to the ACCC Draft Decision of GasNet's Access Arrangement

AGL, at the outset, wishes to thank the Commission for this opportunity and for the additional time to respond to the Draft Decision on GasNet's proposed Access Arrangement. AGL's comments are confined to a limited number of key issues which, in our view, still require resolution.

1. Proposed zonal amendments

AGL, in its submission to the Commission's Issues Paper, noted that the proposal for redefining zones from post codes to customer transfer meters (CTMs) will require changes to AGL's (and other retailers') back office systems and processes, including detailed mapping of addresses to CTMs to ensure correct quoting. AGL notes the Commission's amendment 2, which increases the notification period that GasNet need provide in such instances. However, AGL is still of the view, as expressed in its earlier submission, that GasNet has a broad obligation to consult **prior** to proposing such changes. Furthermore, GasNet does need to be mindful of developments in the Retail Market and ensure that its tariff structures do not hinder development of the fully competitive market.

2. Revenue Elements

Reference is made to amendment 14. The ability for GasNet to pass through the full extent of a prior year loss with the further ability to rebalance individual tariffs by up to 1% is likely to result in retail price shocks and therefore is unacceptable.

The Commission's decision results in a shift of risk to the retailers, given the retailers' potentially limited ability to pass through volatile increases. In the Victorian market there are deemed/default contract provisions that require Government approval for retail tariffs. There is no assurance of the incumbent retailers' ability to pass through increases in transmission (and other component) prices.

Therefore, AGL requests the Commission to reconsider its proposed amendment 14 to constrain the ability for GasNet to recover any K factor under-recovery by limits on individual tariff rebalancing (similar to the current access arrangement). In this instance AGL would expect a higher increase than the one per cent proposed by the Commission in its Draft Decision; AGL would support an increase constraint limited to X% (as defined in the proposed price path) such that the overall annual price increase for an individual tariff is limited to CPI.

3. Reference tariff structure

AGL is disappointed to read in section 8.1.5 of the Commission's Draft Decision that it "...is not persuaded that this complexity [of GasNet's proposed tariff structure] would hinder the operation of the market to the extent that the structure should be rejected."

AGL is of the view that GasNet's proposed tariff methodology is characterised by the shortcomings listed below.

1. Does not meet the Code requirements for balancing cost reflectivity, simplicity and not distorting investment.

AGL does not believe that GasNet's proposal achieves this balance. The complexity of GasNet's proposed tariff methodology will consume a disproportionate amount of retailers' resources, when transmission charges form less than 10% of total delivered energy cost. By way of contrast, distribution charges, which account for some 40% of total delivered energy cost, are characterised by a simpler, more readily comprehended structure.

2. Does not provide the services sought by the market.

AGL believes that GasNet's tariff structure can be simplified (to reduce administrative complexity) by replacing the proposed 10 peak day injection charges with charges based on peak volume charging over the winter period. This will have the effect of preserving some peak pricing signals.

AGL, and it believes other retailers, have a preference for no peak MDQ charges. AGL notes that in its November 2001 consultation paper on the proposed tariff design, GasNet concluded that for its revised model "...injection charges are based on the monthly injections June – September. No charge outside this period." This is consistent with AGL's expectation and preference to move away from the current wash-up process.

3. Does not provide pricing signals to end use customers; the 10 peak day injection charge is more like a lottery rather than providing economic efficient pricing signals.

AGL appreciates the Commission's preparedness to consider further submissions on the appropriateness or otherwise of peak pricing. While abolishing the 5 MDQ withdrawal days is supported, GasNet's proposed shift to include the 10 peak injection days, means similar total dollars of unmeasurable quantity to that under GasNet's current tariff structure.

AGL notes the Commission's views on pricing signals. However, there is no evidence that most loads (other than a very small number of large loads) would be motivated to change their locational decisions based on transmission pricing signals. Further, AGL believes that any intended price signalling does not reach small customers given that:

- Injected gas is not measured on a customer basis. Therefore, actual costs cannot be accurately measured and passed through to users.
- Peak injection days do not necessarily match peak withdrawal days. Tariffs based on the peak injection days therefore may not be recovered at a customer level, unless peak withdrawal days are still defined to the end customer.
- Maximum injections are determined retrospectively and unknown in advance.
- MDQ cannot be measured for a typical tariff V customer, even at the withdrawal point, given the use of basic (ie accumulation) meters.

Therefore, a complex system is being imposed on all loads for marginal economic efficiency benefits. The economic efficiency benefits could be achieved with a simpler approach that focused only on very large loads that might respond to these pricing signals. While TUOS costs contribute on average approximately 10% of the final energy cost, they account for a significant proportion of the administrative cost of producing and reconciling a customer accounts. AGL estimates that this account, with a majority of manual time being spent on TUOS adjustments on retailer bills, must ultimately be borne by the customer through higher administration costs.

We believe a winter period volume charge is a step in the right direction towards a tariff structure that provides appropriate signals, is certain, measurable and administratively less complex.

4. Requires a complex wash-up process which, due to confidentiality and data restrictions, cannot be delivered in practice.

AGL notes that the complexity of the wash-up associated with peak withdrawal and peak injection charges are the same and will become increasingly difficult in a fully competitive market. Further, AGL wishes to note:

- The difficulty in securing the full co-operation of all retailers in the annual wash-up, given vested positions (i.e. the wash-up may be to their disadvantage).
- The wash-up process will become extremely complicated in a fully competitive market. Greater risk is likely through customer churn, as the cost may not be recovered from the customer switching.
- Different gas injection point patterns by retailers confuse the process.

If the Commission accepts GasNet's proposal, then AGL submits that at the very least, GasNet's access arrangement should include details of the wash-up process to be completed by all parties. That way all parties will be committed to participate in the process.

AGL's preferred transmission tariff methodology is for complete withdrawal tariffs similar to the methodology proposed by GasNet for its withdrawal tariffs; that is, peak and off peak pricing based on period volume. Withdrawal charges can be directly attributed to the customers metered usage. However, AGL accepts that at this stage of the approval process it is unlikely for such a significant change to GasNet's tariff methodology to occur without creating a significant deferral in the likely approval date.

Therefore, to balance the desire to obtain timely approval and the deliberations of the Commission in its Draft Decision, AGL submits that the following changes should be made to GasNet's tariff methodology:

- Replace the 10 day injection charges with charges based on peak volume over the winter period. This maintains pricing signals and avoids the mismatch of injection versus customer consumption and the annual wash-up process
- Maintain the existing postcode zone allocation methodology.

4. Tariff path

AGL notes that the Commission states in section 8.2.5 that "...GasNet can establish a forecast average tariff path for the period 2003-2007 that produces a small nominal increase in the average tariff over the period with limited initial increase (between 2002 and 2003)." Furthermore, the Commission has proposed "...the tariff path be smoothed, to the extent practicable, over the access arrangement period."

AGL fully supports this outcome as it reduces the potential for price shock to end-use customers. However, AGL notes that the Commission has not proposed an amendment along these lines in its Draft Decision and requests that this be reflected in its final decision.

5. Withdrawal Zones

With the increased number of Withdrawal Zones, some clarification needs to be made with respect to Zones 11 and 19. Schedule 2, Section 2.2 details the following:

- Zone 11 (Interconnect) connecting Culcairn (MIRN V0000M126) and Walla Walla
- Zone 19 (Culcairn) containing Culcairn (MIRN V0000M126)

We understand the inclusion of Culcairn in both zones to be an error, which GasNet will be correcting. We raise this issue again to ensure that shippers can operate with certainty.

6. Interconnect Forecast Flows

AGL notes that Section 5.7.6 of Schedule 5 of the draft Access Arrangement lodged by GasNet spells out that a "notional" tariff has been struck on the assumption of a 3PJ (at 80% load factor) northward flow. AGL seeks the Commission's views on an appropriate method

for dealing with this tariff assumption in the event that there are significant northward flows in excess of this 3PJ nominal volume. GasNet could be seen to be the beneficiary of additional flows that are not driven by weather, business conditions in Victoria, or by any additional business development efforts on the part of the transmission company. AGL would suggest that GasNet should be required under these circumstances to have a within-period adjustment, a reverse k factor in a sense. Given the increasing interconnectedness of gas networks in southeastern Australia and the difficulty of forecasting these flows, it would be fair and reasonable to insist on such an adjustment mechanism.

Should you have any queries, please do not hesitate to contact George Foley on (03)9926-5550.

Yours sincerely,

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