AMCOR
PURCHASING & LOGISTICS

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Dear Mr Shales

ACCC Draft Decision On GasNet's Access Arrangements Application: Opex, Benefit Sharing and Benchmarking

As previously advised, AMOCR and PaperlinX are providing further comments in response to the release of additional information by GasNet, which was required by the ACCC's draft decision. The comments concern the following issues: opex, benchmarking, benefit sharing and the Murray Valley pipeline.

1. Opex and Benefit Sharing

GasNet's claim that some $20 million or an average of $4 million per year in opex efficiencies allowed in the first access arrangements are not sustainable. Despite the ACCC's draft decision requiring GasNet to provide greater detail of its past opex, especially for the period 2001 and 2002, no relevant information has been made available which would allow users (and the ACCC) to verify that opex claims for the next regulatory period are fair and reasonable and are efficient.

GasNet's opex claims are substantial, especially for the period 2001 and 2002. Yet, no justification has been provided other than attribution of uncosted increases in staffing, pigging and other items, It is also a matter of serious concern that GasNet has claimed that certain opex savings in the first access arrangement were achieved by deferral of costs. Yet these costs (GasNet was provided an allowance in the first access arrangement) are being claimed for the next regulatory period, effectively resulting in a double dipping of opex costs!

AMCOR and PaperlinX strongly consider that in the absence of justification of opex claims in recent years and particularly, the non-substantiation of the claims that opex savings in the first access arrangement period are unsustainable, the ACCC must reject GasNet's ambit claims and must apply an appropriate efficiency savings factor, consistent with the savings clearly achieved in the first access arrangements period.

2. Benchmarking

In the ACCC's draft decision, comments were made in relation to the difficulties of benchmarking GasNet's operations and these were attributed to GasNet's network characteristics and its peaky load and limited linepack, which affected gas control. However, the ACCC did not explain why these should increase the allowable opex revenue, let alone verify the network characteristics claimed. In particular, the ACCC appears to consider GasNet as possessing many features of a distribution network business.

Our comments are as follows:-

- GasNet's network system is geographically compact and is well-loaded compared to other domestic transmission network businesses.
- When compared with the Victorian gas distribution network businesses, the benchmark "non-capital costs per kilometer of mains" for the Victorian distribution businesses is a little over one third of GasNet.
- There has been no verification to GasNet's claim that VENCorp provided benefits to its cost base equivalent to $660,000 per year, notwithstanding VENCorp's yearly operational costs of $16 million.
- The gas control function is undertaken by VENCorp, not by GasNet.
- We note that the ACCC has assessed that GasNet's KPI's are "inconclusive" yet no effort has apparently been directed by the ACCC to verify, by extending its analysis, GasNet's opex costs. This deficiency, and GasNet's failure to provide more information must require the ACCC to reject GasNet's ambit opex claims.

3. Murray Valley Pipeline

GasNet's provision of additional information, in support of its proposal to roll-in the Murray Valley pipeline, is deficient. There is no quantification of the benefits that would accrue from the investment. Also, no quantification of the costs involved or of the expected revenue have been provided.

Accordingly, AMCOR and PaperlinX consider, on the basis of the available information, that the Murray Valley pipeline roll-in does not meet the economic feasibility test of the Gas Code.

Overall, AMCOR and PaperlinX remain disappointed with the inadequate transparency of this current access review. Information disclosures have been deficient, notwithstanding the reasonable requirement that substantial claims for costs (and thereby regulated revenue streams sought) must be verified and substantiated, as required under the Gas Code. It is also disappointing that the ACCC has chosen not to convene a public conference upon release of its draft decision. This process deficiency can only work against good regulatory practice, as well as disadvantaging the interests of users and potential users.

Yours sincerely,

Peter Dobney
National Energy Manager