

19 September 2002

Ms Kanwaljit Kaur
General Manager
Regulatory Affairs – Gas
Australian Competition and Consumer Commission
PO Box 1199
Dickson ACT 2602

Dear Ms Kaur,

Re: GasNet Proposed Access Arrangement 2003 – 2007

Supplementary Submission to the Australian Competition and Consumer Commission on the Commission's Draft Determination on GasNet Australia (Operations) Pty Ltd Victorian GasNet Transmission System 2003-2007.

We thank the Commission for granting EnergyAdvice the opportunity to submit this supplementary submission for further consideration.

1. Peak Injection and Withdrawal Tariffs.

We note that the Commission chose to include the following words included in EnergyAdvice's submission (page 5) at page 127 of the Draft Decision.

“The incentive for end users to try and avoid system peak withdrawal days has significantly diminished with the tariff redesign, however we are unaware of end users actively seeking to avoid these costs under the current tariffs.”

We believe that the Commission may have taken these comments out of context when considering the level of importance of price signals in influencing customer behaviour. To clarify our position we submit the following:

- (i) In our experience through dealing our client's Tariff D issues, we are aware that most are conscious of the cost to them of demand components of the tariff and endeavour to limit this cost within the constraints of their production process and order book.
- (ii) End users do not attempt to forecast system peak days and rearrange production in order to lower or eliminate peak charges by lowering or eliminating gas usage on perceived likely peak days.

- (iii) GasNet's proposal of moving from five peak withdrawal days to ten peak withdrawal days makes it doubly difficult for any end user to "game" the system by endeavouring to predict system peak days.
- (iv) The proposed tariff structure provides little incentive for end users to implement a demand management strategy in an effort to pursue energy conservation and management.

2. Tariff Structure.

We further note that at page 125 of the Draft Decision the following statement appears. "It [GasNet] proposes that the costs associated with injection pipelines be allocated 100% by peak usage (as the tariff will be a peak tariff) and that the remaining costs, associated with the withdrawal zones, be allocated 45% by peak usage and 55% by annual usage to each take-off. This a total of 60% of costs will be allocated by peak volumes".

We find it difficult to reconcile that while 60% of costs are allocated to peak volumes (demand) only 27% are recovered through the demand component of the tariff. We note that "the Commission is not convinced that congestion is likely in the 2003-2007 access arrangement period. However, it considers that it is possible that congestion could occur in the access arrangement period starting 2008 and is conscious of the need for users to face stable tariff structures. It would be unnecessarily disruptive for all peak signals to be removed for the second period only to be reintroduced in the third period. The Commission also notes that peak signals are appropriate before congestion occurs: they are also a tool to discourage users from producing the capacity constraint. Finally, the Commission considers that the evidence suggests that congestion is likely to occur on withdrawal pipes first, rather than injection pipes as GasNet claims" (Pages 132+133).

Given the above statement, it would appear possible, if not probable, that GasNet will want to reintroduce a withdrawal demand charge in 2008.

We believe that it is not in the interests of end users to be faced with conflicting tariff structures every five years. If GasNet's proposed structure is accepted and capacity is undervalued by end users as a result of the signals being sent under that proposed tariff structure, then a change back to capacity sensitive tariffs in the future, to discourage potential constraints, may be too late to be effective once end user culture has moved away from valuing capacity. The proposed structure is likely to discourage marginal electricity generation projects as the cost of transmission will rise significantly for such potential users.

3. Western Transmission System.

The proposed process for rolling the WTS into the PTS provides little detail regarding the termination of the WTS Agreement between GasNet and TXU Retail, and the relevance of the AMDQ Credit Certificates to be issued. Given that the Commission "is not aware of any feasible alternative approaches that would preserve existing rights" and that the

proposed process is highly likely to proceed, is the Commission in a position to disclose basic information on the following issues:

- (i) For what period will TXU Retail hold AMDQ Credit Certificates?
- (ii) Will end users be granted AMDQ at the end of the period determined at (i)?
- (iii) On what basis will end users be granted AMDQ?
- (iv) Is there any firm capacity available on the Western Transmission System, other than that contracted to TXU Retail, available to existing end users or potential other users, and if so how much?

Beyond expressing concern in relation to TXU Retail's apparent monopoly of capacity rights it is difficult to make any meaningful comments due to the lack of information provided. We believe that the commission should release the maximum information possible in the public interest. This is particularly important for those end users who will continue to be denied meaningful competition, and the opportunity to fully participate in the deregulated gas market in Victoria afforded other end users in Victoria.

I thank you for accepting this supplementary submission and would be pleased to discuss with you any issues raised in it or in our initial submission.

Yours sincerely,

Richard Gallienne
Director