

TRIM Ref No: F2005/2903

Mr Warwick Anderson
General Manager
Network Regulation North Branch
Australian Energy Regulator

Dear Mr Anderson

Re: Revised NT Gas Access Arrangement Proposal — May 2011

In March 2011, Power and Water Corporation (Power and Water) made a submission to the AER on the Proposed Access Arrangement lodged by NT Gas Pty Limited (NT Gas) in December 2010. Power and Water is pleased to now provide further comment on the revised Access Arrangement proposed by NT Gas in May 2011.

Power and Water supports the required changes outlined in the AER Draft Decision dated 21 April 2011. Power and Water therefore remains concerned with NT Gas' revised proposed tariff of almost \$34 million despite those amendments sought by the Draft Decision. In effect, despite some notional changes at the "building block" level, NT Gas' revised proposal means no significant change in its Revenue requirement which Power and Water had previously submitted was too high.

Power and Water is particularly concerned by the apparent limited technical and operational rigor exhibited by NT Gas in its forecasting of capital programs. NT Gas submitted, in December 2010, that it maintained a rolling five-year Asset Management Plan which it updated annually and through which NT Gas forecast and implemented its capital activities.¹ Given NT Gas indicated in its December 2010 Access Arrangement submission that this "living" Plan was consistent with Pipeline Licence, regulatory and AS2885 requirements, it is now difficult to give credence to its revised capital forecast which was provided only two months after the initial forecast contained in the said submission.

NT Gas has submitted that it has engaged a "special project team" consisting of specialist contractors operating through a special project management structure including a dedicated project manager to undertake the major part of the capital works.² NT Gas further submitted that the special project manager following his appointment undertook a detailed review of all projects including project scopes, delivery timetable and costing. It is the outcome of that review that is now included in the revised proposed Access Arrangement forecasts.³

¹ NT Gas, Amadeus Gas Pipeline Access Arrangement Revision Proposal December 2010. p.29

² NT Gas, Amadeus Gas Pipeline Access Arrangement Revision Proposal May 2011. p.22

³ NT Gas, Amadeus Gas Pipeline Access Arrangement Revision Proposal May 2011. p.21

Return Postal Address: GPO Box 1921, Darwin NT 0831

On this evidence, it seems that the contracted special project team rather than being set efficient capital project deliverables in accordance with NT Gas' corporate Asset Management Plan, has in fact been permitted to define its own scope and schedule of activities and also set the project budget under which it is contracted. The submission provides no information on the governance processes employed to ensure any capital works are prudent and efficient.

In regard to the significant capital project items and further to our earlier submission, Power and Water does not consider that sufficient justification exists to justify the high level expenditure proposed for anchor block repairs, cathodic protection upgrade and below ground station pipe-work recoating. Neither does Power and Water consider that there is any economic or business justification for the acceleration of such projects into a notional two year time window for the convenience of engaging a special project team. Power and Water also supports the AER's Draft Decision on exclusion of project management costs which inflate project cost estimates.

With respect to operating costs, despite the amendments required in the AER's Draft Decision, operating costs forecast by NT Gas in their May 2011 Proposal show no decrease over the five year Access Arrangement period. NT Gas has again sought to include a high level of corporate overheads and insurance in operating costs and consistent with Power and Water's earlier submission we do not consider that these forecasts should be accepted. It appears that NT Gas has allocated corporate overheads on the basis of the pipeline revenue, and as a result, the outcome is an extraordinarily high proportion of the total operating costs of the Pipeline are overheads. Power and Water believes that corporate overheads are better allocated based on operating costs or headcount as these are more reflective of the actual corporate services delivered.

Please do not hesitate to contact me if have any questions with regard these further comments.

Yours sincerely



MIKE KNOWLES
General Manager
Strategy and Corporate Affairs

17 June 2011