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FILE No:

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Prof Alan Fels
Chair
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

12 February 2001

Dear Professor Fels

Re: ACCC Draft Decision for the Access Arrangement by East Australian Pipeline Ltd from Moomba to Sydney Pipeline System

The Public Interest Advocacy Centre (PIAC) is writing to provide you with comments on the ACCC's Draft Decision for the Access Arrangement by East Australian Pipeline Ltd from Moomba to Sydney Pipeline System. Thank you for giving PIAC the opportunity to comment on the Draft Decision.

1. Rate of Return for the Pipeline

PIAC does not believe that the rate of return as proposed in the Draft Decision on the Sydney to Moomba Pipeline is unreasonable. While transmission costs only make a small percentage of residential consumers' bills, PIAC is concerned that prices do not unduly rise which then provide a windfall for pipeline investors. The proposed return on equity, PIAC notes is 13.0% which is considerably higher than other returns on equity, for example the stock market ten year average of 11.3%. It also must be noted that this is a guaranteed return for investors, and not a return where there is any significant risk involved. Furthermore, it is PIAC's view that this will not mean that investors will withhold investment in gas pipelines, as the Australian gas industry predicts[1].

2. Forecast Volumes

PIAC is concerned that residential consumers will be forced to pay for the loss of volumes to the Eastern Gas Pipeline as forecast by the EAPL. The Draft Decision has accepted that forecast volumes should be the basis for tariffs. The ACCC seems to have rejected NERA's preferred approach which is that the service provider, that is EAPL, should bear the costs because they are in the best position to reduce their supposed spare capacity. PIAC could

1 Ian Howarth, A connected gas system in the pipeline, *Australian Financial Review*, 17 November 2000, p. 60.

not agree more. While, PIAC would debate whether there should be incentives for EAPL to make up the decline in volumes because of competition from the EGL, it makes good business sense for EAPL to pursue full capacity in preference to passing the costs of less capacity on to end-users, particularly residential consumers. In effect, if the NERA proposal is ignored by the ACCC, residential consumers will pay for the introduction of competition – this outcome is in PIAC's view, entirely inappropriate.

3. Different Tariff Structure for Laterals

The proposal in the Draft Decision to have a different tariff structure for the lateral pipelines, for example, Canberra, Lithgow and Griffith that would only apply for the first 100 km of the lateral is of concern to PIAC. While retaining the 100 km cap may go some way in preventing price shocks to those people who have their gas supplied by the laterals, the point also needs to be made that large users have the ability to determine where they locate their business. PIAC is working on the presumption that many of the end-users on the lateral pipelines are in effect, small residential users. Another point needs to be made that small resident consumers use less of the overall volume of the pipeline than large users. There appears to be an economic orthodoxy that continually shifts the costs to residential consumers because they use more of the infrastructure, when there is a different point of view that seems to be given little validity.

If you have any queries about the issues raised in this correspondencee, please contact me on (02) 9299-7833.

Yours sincerely
Public Interest Advocacy Centre

Trish Benson

Trish Benson
Senior Policy Officer