June 4, 2001

Mr Gary Drysdale
Program Manager Access
Independent Pricing & Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Gary,

Gas Tariffs Issues Paper

In May 2001 the Tribunal sought comments on an issues paper entitled "Gas Pricing in Albury, Wagga Wagga and Other Regional Centres in NSW supplied by Origin Energy and Great Southern Energy".

Great Southern Energy offers the following comments on three matters raised in that document:

Retail Margin

The Tribunal in a draft determination in October 1999 and a final determination in February 2000 laid down the voluntary price principles that currently apply to franchise gas prices in Wagga Wagga. These decisions were part of a lengthy process that began in March 1997 (when Great Southern Energy purchased the Wagga Wagga City Council gas business).

The retail margin allowed by the Tribunal in its determination in February 2000 had its origins in a calculation of incremental retail costs made by Great Southern Energy in mid 1997 to support an interim price increase to compensate for increases in gas transmission and commodity costs.

Since that determination, the Tribunal has released two determinations that address the issue of appropriate retail margins; the determination on retail electricity prices in December 1999 and the determination on AGL retail gas prices in February 2001.

There are material and significant differences between the retail margin allowed for Great Southern Energy for gas customers in Wagga Wagga and the decisions in those two later reports.

In the February 2001 report on pricing for AGL franchise customers AGL's retail margin in 1998/99 is stated as 9.9% of sales turnover or $46 per customer. It is also stated that the projected margin for 1999/00 is 9%.

In our submission on price changes in Wagga Wagga from April 1, 2001 under the voluntary pricing principles, Great Southern Energy's margin is 4.1% of sales turnover or $21 per customer.

This inequality of margins is highlighted by the Tribunal’s argument in the December 1999 retail electricity determination that industry average retail margins were appropriate, regardless of differences in cost and scale between the different electricity retailers.

That electricity determination also established a gross retail margin of 6.6% of turnover as appropriate for all electricity retailers. Such a retail margin equates to around $34 per customer for gas customers in Wagga Wagga.

Great Southern Energy can see no reason why our retail margin should differ from that allowed for AGL as such an approach would:

- Support the Tribunal's previous stance on industry average retail margins; and

- Support a position of regulatory neutrality between Great Southern Energy and AGL.

Future Price Paths

In regard to the information requested by the Tribunal for this review, the following information is offered on tariff plans, customer impact analysis and gas commodity, transportation and distribution costs:

<u>Wagga Wagga Customers</u>

Distribution network prices in future years will vary in accordance with the Great Southern Energy Gas Networks Pty Ltd Access Arrangement previously imposed by the Tribunal. The Reference Tariffs for network services for franchise gas customers in Wagga Wagga escalate by CPI plus approximately 1.5% on January 1st each year, Gas commodity and transmission prices paid by Great Southern Energy also escalate on an annual basis broadly by CPI.

Accordingly our future price path for default customers in Wagga Wagga would be:

November 2001 A flat increase to increase the gross retail margin from the current level of approximately 4% to approximately 9%.

April 2002 A normal annual price change (deferred from January 2002) to reflect changes in distribution, transmission and gas commodity costs while retaining the same gross retail margin. Maximum increases will be limited to the greater of $30 per customer per year or CPI + 2%. Within these constraints, the two current residential rates in Wagga Wagga (general and hot water) will be converged into a single residential rate.

January 2003 A normal annual price change to reflect changes in distribution, transmission and gas commodity costs while retaining the same gross retail margin. Maximum increases will be limited to the greater of $30 per customer per year or CPI + 2%.

January 2004 A normal annual price change to reflect changes in distribution, transmission and gas commodity costs while retaining the same gross retail margin. Note that the existing Access Arrangement for the Wagga Wagga distribution system expires in December 2003 and thus any retail tariff outcomes will be dependent Reference Tariffs in the revised Access Arrangement.

<u>Temora, Culcairn, Holbrook & Henty Customers</u>

Great Southern Energy is not the franchise retailer in these areas and supply is currently competitive. However, distribution charges in these areas are regulated by the AGLGN Access Arrangement and transmission and gas commodity costs are broadly similar to Wagga Wagga.

Great Southern Energy's tariff plans for default customers in these areas would be to adhere to the prices and principles agreed by AGLRE for default customers in other areas of NSW as detailed in the discussion paper.

<u>Cooma Customers</u>

There is uncertainty in regard to most cost of supply components for Great Southern Energy for default customers in Cooma at this time. For example:

- Gas transmission prices are currently paid under a short-term contract with the pipeline operator. Legal action as to the coverage or otherwise of the pipeline under the National Gas Access Code has concluded and the pipeline will not be covered. The impact of this decision on transmission pricing is uncertain;
- Gas distribution prices are currently paid under a short-term agreement with the network operator. The Cooma gas distribution network is currently unregulated and is unlikely ever to meet the criteria for declaration and thus regulation under the National Gas Access Code.
- Gas commodity prices are also paid under a short-term contract and future charges will generally be market based and may be short term.

However Great Southern Energy recognises the desire of the Government to have default supply prices for all gas customers and would propose that prices for Cooma default customers would be reviewed by the Tribunal when cost increases would result in price rises of more than the CPI plus a margin of 2%.

Contestability Costs

Great Southern Energy understands that GRMCo has finalised plans for the development and operation of the systems and processes needed to support retail contestibility for small gas customers. The cost allocation mechanism has also been finalised and indications are that smaller existing retailers such as Great Southern Energy may be required to bear a disproportionate share of the costs.

The Tribunal should allow full pass through of these costs for both retail and network operators, as membership of GRMCo is a license condition.

Please contact me on 6214 9865 should you require any further information on this matter.

Yours sincerely,

Peter Hoogland
Manager Energy Purchasing and Pricing