HARRISON MANUFACTURING CO. PTY. LIMITED

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15 APR 2004
INDEPENDENT PRICING AND REGULATORY TRIBUNAL

13 April, 2004

Dr. T G Parry
Chairman
Independent Pricing and Regulatory Tribunal

Re: AGLGN 2004 Proposed Revisions

Dear Dr. Parry,

Thank you for the opportunity to comment on the proposed revisions to the AGLGN Access Arrangements.

Harrison Manufacturing is located at Brookvale on Sydney's northern beaches. Our main business is the manufacture of lubricants (oils and greases). We are a medium-sized company, employing approximately 25 people, and a medium-scale user of natural gas with an ACQ of about 20,000 GJ. The gas that we consume is used primarily to heat oil which is in turn used for process heating. Gas is also used to incinerate process odours.

We have two major concerns with the current and proposed access arrangement.

1. Basis of Calculation of Local Network Unit Charges for Users in Sydney LN Zone 5

The cost of access for users such as ourselves located in Sydney LN Zone 5 is a massive 17 times greater than those located in the least-cost Sydney LN Zone (Zone 1). It is 5.8 times greater than the second highest cost zone (Zone 4). We acknowledge that costs for Zone 5 are expected to be capped but the fact that the cost recovery model used results in such a variation remains a great concern.

The reality would seem to be that, well in the past, the then AGL made a business decision to install an expensive, high volume, high pressure main to serve a single customer (a brickworks) located in Postcode 2100. This customer shut down a number of years ago and AGL was left with the legacy of an oversized and overcapitalised distribution system to Postcode 2100. Rather than having to live with this legacy, the cost recovery model (which was introduced post the loss of this major customer) apparently allows AGLGN to mortise the sunk cost of their now-redundant investment over their remaining users in the area, including ourselves.

We can see no rational reason to penalise users such as ourselves for AGL's historical decision to install this capacity for a single user. We apparently are not even connected to the high pressure main in question. We are served by the old original low pressure main. In our opinion, AGLGN should wear the consequences of their

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earlier investment decision and write off the redundant installation, not force other users to give them a return on it. Capped charges smack of charity and handouts to users and run the obvious risk of removal at a future date. In this case, the charitable handout would appear to be to AGLGN.

2. Charges for Consumption above the MDQ

We understand that the proposed arrangement applies to Users and not necessarily to Customers and acknowledge that we may be somewhat confused as to its impact on us as (we presume) a Customer. However, we submit that, for small to medium customers, the size and rate of escalation of the charges for consumption above the contracted MDQ are disproportionate to the magnitude of any problem that such consumption would cause AGLGN. We believe that they are set at a punitive level to force such customers to contract for quantities considerably in excess of their probable needs to ensure a safety margin.

We acknowledge that some notice was taken of our submission on this matter in **1998** and that the additional summer tranche provision was introduced. Further, we have taken advantage of this provision on one occasion. However, this provision is only of use in circumstances when a customer knows at least one month in advance that their offtake will increase temporarily. More often than not this is not the case. Opportunities for extra work can arise at short notice, and the period of extra use may be less than one month, or may not fall nicely within the boundaries of a calendar month. (In this regard we also acknowledge that we are not sure whether the Short Term Capacity provisions – which appear to be more flexible - will be able to be accessed by Customers).

We submit that the total network could readily absorb short-term random consumption by small to medium customers at levels 20% above their MDQ. The network's storage capacity was well-demonstrated during the recent Moomba supply problem. Given this, we propose that daily consumption rates of up to 110% of MDQ be allowed for such customers for up to three days per month without incurring a penalty. The provision for purchasing temporarily-increased offtakes should also be retained.

In making this proposal we recognise fully the need for AGLGN to be protected against deliberate understating by customers of their potential consumption. However, we believe that the current charge system errs far too greatly in the other direction. To check the actual situation, we would like to request, through the Tribunal, that AGL/AGLGN publish - summed over the small to medium class of customers in total - the Annual Contract Quantity and the Annual Actual Quantity consumed in the last 12 month period.

Yours faithfully,

Richard Michell
Managing Director