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JP Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
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Dear Acting Chairman

Review of Gas Access Arrangements submitted by AGL Gas Networks

Alinta welcomes the opportunity to comment on the review of the Access Arrangement submitted by AGL Gas Networks (AGLGN).

There are two specific aspects of the proposed Access Arrangement with which Alinta has particular concern:

- Creation of the aggregated Trunk Zone A
- Load shedding priorities

Aggregation of zones

Alinta notes that AGLGN is proposing to aggregate the current Zones 1, 2 & 3 into a single Zone A. It is Alinta's view that this proposal raises significant efficiency and competition concerns.

Alinta notes the pricing arrangements for the proposed Zone A represent a departure from one of the key cost allocation principles contained in the Gas Code – that is, cost reflectivity. This is because a user would be required to pay for transportation across the entire length of the proposed Zone A regardless of the length of the pipe actually being used. For example, where a shipper only transports gas over a very short section of the overall Zone, then that shipper would be required to pay as if the entire length of the pipeline had been used. This is the situation facing shippers on the Eastern Gas Pipeline injecting into the AGLGN trunk at Horsley Park. The ultimate effect of the proposal would be that EGP shippers would be required to pay a disproportionate amount of AGLGN's revenue from within the Trunk Zone A, which in turn would distort the market.

To illustrate this point it is useful to contrast the proposed cost[1] for shippers injecting into the AGLGN trunk at Horsley Park with the cost to do so under the current Access Arrangement. Presently a shipper injecting at Horsley Park faces an annual tariff of

[1] Expressed as $/GJ MDQ per annum in 2004/05 dollars

$6.563/GJ. Under the proposed arrangement the annual cost would rise to $13.477/GJ. That is, the pricing arrangement for the proposed Access Arrangement would result in a greater than 100% increase in cost for shippers injecting into the trunk at Horsley Park: a huge increase from any perspective.

Interestingly, this is a proposed increase with no apparent underlying rationale. While Alinta has not undertaken a detailed review of AGLGN's demand and capital expenditure forecasts, a cursory analysis did not reveal any significant changes on the relevant sections of the trunk line that would justify the price increase. Alinta suggests that rather than being a function of cost reflectivity, the underlying rationale for the increase is to erode the competitive advantage presently enjoyed by the EGP.

As you would be aware, the EGP connects with the AGLGN trunk at Horsley Park and EGP's competitor, the Moomba to Sydney Pipeline (MSP), connects into the trunk further south at Wilton. Currently shippers on the EGP enjoy a $0.026/GJ per day tariff advantage over shippers on the MSP, simply because shippers injecting at Wilton use significantly more of the trunk line than do shippers injecting at Horsley Park. The proposed pricing on Zone A would see this differential being removed.

One of the more significant concerns arising from the proposed arrangement is the impact it would have on the emerging competition in Sydney's retail gas market. Alinta notes that the dominant gas retailer in Sydney, which is AGLGN's affiliate, AGL, would directly benefit as a result of the proposed trunk Zone A. Further, the benefits that would accrue to AGL would come directly at the expense of its competitors. This is simply because AGL sources the bulk of its gas via the MSP. As such, AGLGN's proposed aggregation of Zones 1, 2 & 3 into Trunk Zone A would provide an immediate and enduring financial benefit to its affiliate.

Alinta believes that the proposal to create the aggregated Zone A should be disallowed and the current zonal structure retained.

Load shedding priorities

The second aspect of the proposed Access Arrangement that Alinta wishes to comment on relates to the proposed load shedding provisions contained in Schedule 4 of the Access Arrangement. Alinta notes that the proposed priorities do not take into consideration the fact that AGLGN is supplied with gas from a number of gas fields and transmission pipelines. It is Alinta's view that the proposed approach would have an adverse impact on incentives to diversify supply, and in turn, an adverse impact on investment in developing gas fields.

Alinta believes that a more appropriate load shedding mechanism is one that recognises the cause of a load shedding event. That is, there should be a casual relationship between load shedding events and those users that are curtailed. This causal relationship can be accommodated in practical terms by matching up users with their shippers. Where a shipper is unable to deliver sufficient quantities of gas which non-delivery then results in a load shedding event (whether because of problems with a gas field or a transmission pipeline) then it should be the users of that shipper that should be curtailed first.

Alinta understands that the information necessary to give effect to this approach is already available to AGLGN.

Alinta recognises that this causal relationship could not and in fact should not apply to tariff customers and hospitals and essential service sites (that is, proposed load shedding priorities 9 and 10). It should, however, apply to all other users. As noted above, implementing such a causal relationship would provide the incentives to ensure diversity of supply (and therefore greater system security) while encouraging the development of and operation of a national market for natural gas - the latter being one of the overarching objectives of the Gas Access Regime.

Should you wish to discuss this submission please do not hesitate to contact me on (03) 9685 1061.

Yours sincerely

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