Orica Australia Pty Ltd
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6th October 2004

Mr JP Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
Level 2
44 Margret Street
Sydney NSW 2000

Email: gaspricing@ipart.nsw.gov.au

Dear Acting Chairman

Re: Orica's comment to ECG Report – AGLGN Capital and Non Capital Expenditure

Orica is pleased to provide its views and comments to IPART on the ECG Report – AGLGN Capital and Non Capital Expenditure dated 30/08/2004.

ECG has undertaken a comprehensive reviewed of the proposed Capital and Non Capital Expenditure by AGLGN, in general Orica supports the views and findings of ECG. Orica make the following comments on the ECG report.

1) 7.7.5 Access Arrangement.

   Orica request IPART to more closely examine the budget $2.7 million expenditure for costs associated with the preparation the 2004 Access Arrangement. The consultant ECG was not able to confirm whether the cost is prudent because AGLGN was "unable" to provide details. An efficient reputable network operator should be in the position to readily make this information available to IPART.

   $2.7 million represents a very significant resource, its is very difficult for the individual customers to complete against this overwhelming resource base at the command of the AGLGN.

2) 10.1.4 Market Operations

Orica is under the impression customers are being charged twice for these so called “Market Operations”, the actual costs for these operations have been included as part of the current Access Arrangement. The Market Operations activities consisting of management of load shedding, monitoring of gas quality and gas balancing are all clearly detailed in the Gas Retail Market Business Rules to Support Retail Competition in Gas and form the part of the scope of work for a AGLGN network operator.

If the scope of work has not changed why should AGLGN be given an additional $4.3 million for each year of the new Access Arrangement for no increase in scope.

The other item grouped under Market Operations the approval of Type B (industrial and commercial) appliance should be funded on a “user pay” system.

Orica request IPART to disallow all costs requested by AGLGN for Market Operations activities.

3) 10.2.4 UAG

Orica supports the case put forward by EGC regarding the allowable percentage of UAG and the assumed gas price, refer to Table 10-9 Allowable UAG Costs 2004-2010.

AGLGN forecasted gas prices (Real $2005/GJ) of between $4.53 and $4.49 for the forecasted demand (UAG between 1,970 to 2073 TJ) is very high from Orica experience in the market place. The figure of $4.20 (Real $2005/GJ) put forward by EGC is a more realistic forecasted gas cost.

4) 11. Asset Utilisation (Redundant Assets)

Orica request IPART closely examines the Redundant Assets component of the Regulatory Asset Base. The ECG report indicates there is a forecasted contract load reduction in both the Sydney to Newcastle and the Sydney to Wollongong trunk during the proposed access period.

Should you require any clarification regarding this submission please contact me on 02 49235503.

Yours sincerely

George Leong

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Contracts Manger
Orica Mining Services

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Dear Acting Chairman

Re: Orica's comment to The Allen Consulting Group – Assessment of Terms and Conditions

Orica is pleased to provide its views and comments to IPART on the Allen Consulting Group – Assessment of the Terms and Conditions dated August 2004.

1. Orica generally supports the views and recommendation detailed in the Allen Consulting Group – Assessment of terms and Conditions. Orica request IPART to implement the amendments detailed in the report.

2. On the specific recommendation,

   "Failure of the terms and conditions to deal adequately with interaction between the terms and conditions for distribution services and the Gas Retail Market Business Rules"

   Orica support the views detailed in Patricia McKenzie letter dated 30 August 2004 to AGL Energy Networks (attached to AGLGN Submission on the Draft Allen Consulting Group Report on Assessment Terms and Conditions).

   "The retail market participants agreed in the establishing the GRMBRs that, should conflict exist between the GRMBRs and the Access Arrangement, the terms of the Access Arrangement would apply to the extent of any inconsistency. This provision recognised the fact that the terms of access to the distribution networks are governed under the National Third Party Access Code for Natural Gas pipelines, and are approved by an independent regulator after extensive consultation.“

3. On the specific recommendation,

“Absence of explicit qualitative or quantitative limits on the level and type of security that AGLGN may seek from user"

Orica strongly supports the Allen Consulting Group’s recommendations. Orica is very reluctant to rely on the requirements for AGLGN to act reasonably. Additionally the dispute resolution procedures contained in the code are very difficult to implement to protect the customer.

4. Orica would like to comment on a recent denial for a Short-Term Capacity request to AGLGN, the request was made under the following cause of the Access Arrangement.

Section 2.1 Capacity Reservation Service – Terms and Conditions, Short term Capacity for Users Supplying Customers above 30 TJ per annum at a Delivery Point.

“Users supplying a Customer at a single Delivery Point which is reasonably expected to withdraw an amount in excess of 30 TJ per Contract Year may obtain Short Term Capacity for such Delivery Points on the terms set out below:

- A User may increase the MDQ to cover the Customer’s reasonable requirements during periods of equipment failure, commissioning or additional production following equipment failure, and events such as the re-firing of furnaces after re-builds or at start-ups after non-scheduled plant maintenance, where such activity occurs less frequently than once every year.”

The interpretation on the above cause would seem to be of a general nature however AGLGN the network operator denial Orica request for this service because AGLGN considered Orica’s request was outside the parameter detailed above.

Orica is requesting IPART make the following amendments to the above cause so that Orica and other customers are not relying on AGLGN’s interpretation of the cause.

Proposed Amendments

“A User may increase the MDQ to cover the Customer’s ~~reasonable requirements during periods of equipment failure, commissioning or additional production following equipment failure, and events such as the re-firing of furnaces after re-builds or at start-ups after non-scheduled plant maintenance~~

additional operational requirements, where such activity occurs less frequently than once every year."

Orica believes the proposed changes better reflect the intent of the Access Arrangement and removes the requirement for AGLGN to approve the parameters for the request.

The requirements to amend the above clause is made more important because the Access Arrangement allows the customer to,

"Request for Short Term Capacity maybe made in advance or at any time within one month after the capacity or any part of it has been used by the user."

Subjected to all other conditions governing the supply of Short Term Capacity the customer request for this service after the gas has been consumed should not be subjected to AGLGN interpretation of the allowable parameters for the increased MDQ.

Orica has no objections to the other conditions governing the supply of Short Term Capacity namely,

- Cost for additional MDQ
- Duration of 1 to maximum of 4 weeks.
- Maximum of one request every 12 months.

Orica supports these conditions because they stop Customers from abusing the intent of the service.

Should you require any clarification regarding this submission please contact me on 02 49235503.

Yours sincerely

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Dear Acting Chairman

Re: Orica's comment to AGLGN Access Arrangement implementation date

Orica is pleased to provide its views and comments to IPART on the revised timetable for the implementation of the "AGLGN 2004 Access Arrangement". At the round table discussion held by IPART on the 15/09/2004, IPART announced a revised timetable for the implementation of the 2004 AGLGN Access Arrangement.

The current planned implementation for the new AGLGN Access Arrangement is 1st April 2005 compared with the original expire date of the 1999/2000 Access Arrangement of 30th June 2003. Due to various circumstances the proposed new AGLGN Access Arrangement will be delayed nine (9) months by the time it is implemented on 1st April 2005.

AGLGN's proposed revisions to the Access Arrangement, released 12th January 2003 contains no real prices increase to all customers with significant price reductions for some customers. During the AGLGN public presentation on the 19th February 2004 AGLGN stated, “Overall Changes – Contract Ref Prices (average based on same year’s dollars)

- Average change: 11% reduction in network charge
- CPI thereafter on average
- Sydney Av 9% fall
- Newcastle Av 19% fall
- Wollongong Av 15% fall
- Country Av 14% fall
- Capped ~ 5% fall”

The delays in the implementation of the new Access Arrangement by nine (9) months based on the AGLGN proposed Access Arrangement will significantly increase the transport costs of gas to all of AGLGN customers. Conversely AGLGN has incurred a significantly increase in revenue during due to the nine (9) delay in the Access Arrangement.

For the Orica Kooragang site based on the proposed pricing for the new Access Arrangement over a 12 month period Orica prices reduction would be 2.77%, corrected for nine (9) months Orica price reduction for a 12 month period would be 2.14 % the following percentages. A saving of 2.14% for Orica represents a significant dollar amount.

Orica request IPART to investigate the additional costs incurred by all customers for the transportation of gas due to the proposed late implementation of the Access Arrangement. Orica proposed the additional revenue collected by AGLGN be returned to the customers by an adjustment in the transport tariffs in the new Access Arrangement.

Should you require any clarification regarding this submission please contact me on 02 49235503.

Yours sincerely

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Dear Acting Chairman

Re: Orica's comment to AGLGN Submission – Gas Swap Service and Trunk Zone Structure

Orica is pleased to provide its views and comments to IPART on the AGLGN Submission – Gas Swap Service and Trunk Zone Structure dated 27 August 2004.

1. On this occasion Orica supports the views detailed in AGLGN submission regarding the reduction of the Sydney to Newcastle Trunk line from the existing seven (7) zones to the proposed five (5) zones for the 2004 Access Arrangement.

2. Orica believes the key element in the establishment of a trading hub is for all major gas receipt points be delivered to the same zone. Therefore the MSP delivery point at Wilton, the EGP delivery point at Horsley Park and the proposed Sydney Gas delivery point at Menangle should all be in the same zone.

3. Currently NSW does not have a market for the "short term supply of gas" in which stakeholders can swap or trade in a timely manner. The restrictions on the development of a market for trading or swapping "short term supply of gas" are detailed below,

- If the receipt points are in different zones, than additional contractual arrangements with the network operator maybe required.
- Delays due to the requirements by GMC to change standing data.
- Problems in the reconciliation of the User's contractual supply positions.
- Problems on the reconciliation of the User's balancing gas position.

4. The proposed 2004 Access Arrangement should be structured to allow the facilities for the timely trading or swapping of gas on a short term basis. Only after these facilities are made available will a market be established for the short term trading of gas. Under the existing seven(7) zone structure a market for short-term gas supply will never develop.

5. Orica believes the market for the short term supply of gas would quickly develop if there is a efficient system in place to allow users to easily trade or swap gas in a timely manner. All the impediment detailed above in point 3 must be addressed before this can occur.

6. The introduction of the Five (5) zone structure as proposed by AGLGN would result in a re-alignment of charges to all customers on the Sydney to Newcastle trunk line. Dependent upon the customer's receipt point there maybe a small reduction or a small increase in transport charges. It is Orica view that the overall benefits on the establishment of completion for a short-term gas supply market far outweigh the consequence caused by the re-alignment of charges.

Should you require any clarification regarding this submission please contact me on 02 49235503.

Yours sincerely

George Leong

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Contracts Manger
Orica Mining Services